

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name City of Albion	County Calhoun
Audit Date 12/31/04	Opinion Date 8/5/05	Date Accountant Report Submitted to State: 8/31/05	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) Abraham & Gaffney, P.C.			
Street Address 3511 Coolidge Road, Suite 100		City East Lansing	State MI
		ZIP 48823	
Accountant Signature <i>Abraham & Gaffney, P.C.</i>		Date <i>8/30/05</i>	

**City of Albion
Calhoun County, Michigan**

FINANCIAL STATEMENTS

December 31, 2004

City of Albion

Calhoun County, Michigan

December 31, 2004

CITY COUNCIL AND ADMINISTRATION

Mr. William M. Wheaton	Mayor
Mr. Ron Grant	Council member
Ms. Betty Branche	Council member
Mr. Ken Karl Waito	Council member
Mr. Andrew Zblewski	Council member
Ms. Cheryl Krause	Council member
Mr. George Strander	Council member
Mr. Mike Herman	City Manager
Ms. Kerry Helmick	Clerk/Treasurer/ Finance Director

City of Albion

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Principals

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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Albion
Albion, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of City's management. Our responsibility is to express opinions on these financial statements based on our audit. The financial statements of the City of Albion for the year ended December 31, 2003, were audited by other auditors whose report dated July 8, 2004, expressed an unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, the aggregate discretely presented component units, and the aggregate remaining fund information of the City of Albion as of December 31, 2004, and the respective changes in financial position, and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note A, the City has implemented a new financial reporting model, as required by the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments, as of January 1, 2004, along with all related statements and interpretations.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 5, 2005 on our consideration of the City of Albion's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The management's discussion and analysis and budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Albion's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

This discussion and analysis is intended to provide an overview of the City's financial condition for the year ended December 31, 2004, as well as an analysis of what this financial condition means for the future financial operations of the City. Fiscal Year 2004 is the first year that the requirements of the Governmental Accounting Standards Board (GASB) Statement Number 34 will be implemented for the City. As a result of the significant changes provided under GASB 34, it will not be possible to provide direct comparisons with financial information from prior year operations. In future year audits, these comparisons will be provided as a routine part of the audit process. The information provided in this discussion and analysis should be reviewed in conjunction with the audit information provided in the audit of the City's 2004 fiscal year.

Government-Wide Financial Statements

Under GASB 34 government-wide financial statements have been added to the audit process with the intent of providing a broad overview of the City's finances. The government-wide statements are presented on a full accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed. Two government-wide statements are provided. One government-wide statement, the Statement of Net Assets, presents information on all of the City's assets and liabilities with the difference shown as net assets. Over time, increases or decreases in the City's net assets may be an indicator of whether the City's financial health is improving or deteriorating. However, other factors both financial and non-financial should be considered in assessing the overall financial health of the City.

The second government-wide statement, the Statement of Activities, provides information on how the government-wide net assets changed during the fiscal year. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows. Therefore, revenues and expenses are reported in the statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

In the Statement of Net Assets and the Statement of Activities, we report the following kinds of activities:

- Governmental Activities - Most of the City's basic services are reported here, including, but not limited to, police, fire, general administration, parks and recreation, public works, major and local streets and the library. Taxes, charges for services and intergovernmental revenue primarily fund these services.
- Business-type Activities - These activities operate like private business. The City charges fees to recover the cost of the services provided. The City's water and sewer activities are reported here.
- Component Units - Component units are legally separate organizations for which the City Council appoints a majority of the organizations board and there is a degree of financial accountability to the City. Component units for the City of Albion are the Downtown Development Authority (DDA), the Economic Development Corporation (EDC) and the Tax Increment Finance Authority (TIFA).

Following the government-wide financial statements will be Government Fund Financial Statements. While the government-wide financial statements are presented on a full accrual basis of accounting, the Government Fund Financial Statements are presented on a modified accrual basis of accounting.

The differences between the full accrual basis and modified accrual basis of accounting are primarily related to inclusion of capital assets and recognition of certain receivables and long-term liabilities in the Government-wide Statement of Net Assets, which are not included in the Governmental Funds Balance Sheet. Also, there is a difference related to the timing of reporting capital outlays and debt principal repayment in the Governmental Funds Financial Statements and a difference in the timing of the recognition of certain revenues and expenditures such as bond proceeds, accrued interest and accrued employee leave time in the Government Funds Financial Statements versus the Government-wide Statements. (See following table)

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Item Description	Government-Wide Statements	Government Fund Statements
Capital Assets	Depreciation reported	Depreciation not reported
Capital Outlay	Capital asset	Reported as expenditure
Internal Service Fund (Equip. Pool)	Government activity	Proprietary fund
Long-term liability (sick leave)	Liability	Actual expenditures
Bond proceeds	Liability	Other financing source

Fund Financial Statements

The Fund Financial Statements provide detailed information about the most significant funds (activities); not the City as a whole. A Fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. GASB 34 defines these significant funds as "major funds" which are reported separately as part of the Fund Financial Statements portion of the audit.

The Major funds for the City of Albion include the General Fund, CDBG, Albion Building Authority, Revolving Loan, Albion Trust, Street Improvement, Library Trust, Sewer and Water. All other funds will be classified as nonmajor funds and are reported in aggregate by the applicable fund type. All of the funds of the City of Albion can be divided into three categories; governmental funds, proprietary funds and fiduciary funds.

Governmental Funds - Most of the City's basic services are reported in government funds, which focus on how money flows into and out of these funds and the balances left at year-end that are available for spending. The City of Albion maintains several individual governmental funds. These funds are presented in the Combined Balance Sheet under Governmental Fund Types under the categories of General Fund, Special Revenue Funds, Debt Service Funds and Capital Project Funds.

Proprietary Funds - When the City charges customers for the services it provides, these services are generally reported in Proprietary Funds. The City of Albion uses two types of proprietary funds. Enterprise Funds are used to report the activities for the water and sewer operations. The Internal Service Fund is used to report the activities for the equipment pool operations.

Fiduciary Funds - The City of Albion is the trustee, or fiduciary, for the following funds: Public Safety Officers' Pension, and the Retiree Health Care. All of the City's fiduciary funds are reported in a separate statement of Fiduciary Net Assets. The government-wide statements exclude the fiduciary fund activities and balances because these assets are not available to the City of Albion to fund its operations.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements.

Other Information

Following the basic financial statements is additional required supplementary information, which further explains and supports the information in the financial statements. Other supplementary information includes combining financial statements for nonmajor governmental funds, component unit funds and schedules of outstanding debt.

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Government-Wide (City as a Whole) Financial Analysis

The Statement of Net Assets provides information that can be helpful in evaluating the City's financial condition. The net assets and changes over time can provide an indication of whether the City's financial health is improving or deteriorating. However, it should be noted that other factors both economic and non-economic can affect the City's financial health. Since this is the first year the City has prepared its financial statements following GASB 34, comparisons to fiscal year 2003 are not available.

The largest portion of the City's net assets is invested in capital assets (streets, buildings, land, equipment, and utility systems). These assets are used to provide services to residents in the community and therefore these assets are not available to pay operating expenses, etc. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the funds needed to repay current City debt must be provided from other sources, since the capital assets themselves cannot be used to cover these liabilities.

Net Assets as of December 31, 2004

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Current Assets	\$ 6,024,303	\$ 952,977	\$ 6,977,280
Noncurrent Assets	<u>4,698,668</u>	<u>11,087,860</u>	<u>15,786,528</u>
Total Assets	<u>\$ 10,722,971</u>	<u>\$ 12,040,837</u>	<u>\$ 22,763,808</u>
Current Liabilities	\$ 1,275,117	\$ 223,695	\$ 1,498,812
Noncurrent Liabilities	<u>2,315,527</u>	<u>1,524,069</u>	<u>3,839,596</u>
Total Liabilities	<u>\$ 3,590,644</u>	<u>\$ 1,747,764</u>	<u>\$ 5,338,408</u>
Net Assets			
Invested in Capital Assets (Net of related debt)	\$ 2,489,844	\$ 8,286,926	\$ 10,776,770
Restricted	285,200	-	285,200
Unrestricted	<u>4,357,283</u>	<u>2,006,147</u>	<u>6,363,430</u>
Total Net Assets	<u>\$ 7,132,327</u>	<u>\$ 10,293,073</u>	<u>\$ 17,425,400</u>

Changes in Net Assets for the Fiscal Year Ended December 31, 2004

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Revenues			
Program Revenues			
Charges for Services	\$ 821,194	\$ 1,576,163	\$ 2,397,357
Grants and Contributions	1,129,692	6,743	1,136,435
General Revenues			
Property Taxes	2,494,725	-	2,494,725
Income Taxes	1,080,865	-	1,080,865
State Shared Revenues	1,282,945	-	1,282,945
Investment Earnings	77,047	14,365	91,412
Miscellaneous	<u>302,236</u>	<u>28,188</u>	<u>330,424</u>
Total Revenues	<u>\$ 7,188,704</u>	<u>\$ 1,625,459</u>	<u>\$ 8,814,163</u>

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Changes in Net Assets for the Fiscal Year Ended December 31, 2004 - continued

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Total Primary Government</u>
Expenses			
General Government	\$ 1,396,882	\$ -	\$ 1,396,882
Public Safety	2,471,989	-	2,471,989
Public Works	789,933	-	789,933
Health and Welfare	157,134	-	157,134
Community and Econ. Dev.	373,275	-	373,275
Recreation and Cultural	344,962	-	344,962
Interest on Long Term Debt	8,166	-	8,166
Other	<u>236,386</u>	<u>1,834,486</u>	<u>2,070,872</u>
Total Expenses	<u>5,778,727</u>	<u>1,834,486</u>	<u>7,613,213</u>
Change in Net Assets	1,409,977	(209,027)	1,200,950
Net Assets - Beginning	5,722,350	10,224,209	15,946,559
Prior Period Adjustments	<u>-</u>	<u>227,891</u>	<u>227,891</u>
Net Assets - Ending	<u>\$ 7,132,327</u>	<u>\$ 10,293,073</u>	<u>\$ 17,425,400</u>

Governmental Activities

The Statement of Net Assets shows that for Governmental Activities as of December 31, 2004, the Total Net Assets of \$7,132,327. Since this is the first year the City has prepared financial statements following GASB 34, comparisons to fiscal year 2003 are not available. During future years the change in Net Assets will be addressed as part of the Management's Discussion and Analysis.

Revenues:

The three largest revenue sources under the Governmental Activities category are Property Taxes at 35%, State Revenue Sharing at 27%, and the City Income Taxes at 15%. In November 2003, City voters approved a three-year 1.0 mill levy for Public Safety and a three-year 0.80 mill levy for Recreation. These extra millage amounts will be collected in 2004, 2005, and 2006 respectively. Except for the revenues from this special millage, property tax revenues are expected to increase at the rate of inflation.

As a result of the closing of Trillium Hospital, Harvard Industries, and K-Mart in the spring of 2002, the City lost over 800 local jobs. This, along with a prolonged downturn in the economy, has resulted in about a \$403,000 reduction in the annual revenue generated by the local city income tax. The city income tax revenue has leveled off at about \$1.1 million from a previous high of about \$1.5 million.

Annual State Revenue Sharing, as a result of the downturn in the State economy, has likewise seen a significant reduction to about \$1.3 million from a previous high of just over \$1.5 million. The State revenue sharing amount has also been negatively impacted as a result of the City's continued population decline of about 1,000 people per decade since 1970. The City's current (2000 census) population is 9,144, as compared to its highest level of 12,749 residents in 1960.

Expenses:

The largest Governmental Activities expense item is Public Safety at 43% of total expenses. The next largest expense item is General Government at 24% of total expenses.

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Business-Type Activities

The Statement of Net Assets shows that for Business-type Activities as of December 31, 2004 there were Total Net Assets of \$10,293,073. During future years the change in Net Assets will be addressed as part of the Management's Discussion and Analysis. The Statement of Net Assets is significantly affected by the recording of depreciation expense. For utility funds the City's charter requires that rates be "...fixed as to at least meet all the costs of such utility, including depreciation". Therefore, the City's utility funds record depreciation even if revenues are not sufficient to fund depreciation for the fiscal year.

Financial Analysis of the City's Major Funds

General Fund:

The General Fund is the primary operating fund of the City of Albion. As of December 31, 2004, the General Fund had an undesignated fund balance of \$309,702 and a reserved fund balance of \$101,975. This amount is an increase of \$458,230 from the restated fund balance on December 31, 2003. The General Fund revenues for 2004 exceeded expectations by \$260,493; however, this increase was partially offset by prior period adjustments of \$76,432.

From a budgetary standpoint, General Fund revenues exceeded the budgeted amount by \$260,493 and expenditures were below budget by \$239,477. A portion of this increase in General Fund balance is a result of an \$110,000 transfer from the Albion Trust to the City's General Fund. The majority of the departments and activities were under budget for expenditures for 2004. There are a couple areas that exceeded the budgeted amount for expenditures and these areas need to be more closely monitored in the future.

The Recreation program is partially funded by a special voted millage of 0.80 mills per year (revenues estimated at \$80,000). In order to meet the anticipated expenditures for the program, it is necessary to raise an additional \$60,000-\$80,000 in revenues. For 2004, the program was short of its revenue goal by about \$33,000.

Under the General Appropriation area in the General Fund, we have struggled to stay within budget for professional services, contracted services and miscellaneous expense items. These three items were over budget by about \$40,000. Fortunately this budget overrun was offset by lower expenditures in other items so that for the General Appropriation area we were only over budget by about \$5,000.

Community Development Block Grant Fund:

The CDBG Fund is used to account for the specific financial resources used to improve the quality of the City. The CDBG Fund reflected an increase in fund balance related to current year activity of \$35,530. Fund balance for this fund was \$424,091 as of December 31, 2004.

Albion Building Authority Fund:

The Albion Building Authority (ABA) on behalf of the City Council has responsibility for the operation and management of several city facilities. The largest facility is Maple Grove Apartments, which is a senior citizen facility with 70 apartment units. The bonds for this facility were paid off in 2004. The ABA also manages the building that houses the Economic Development Corporation and the Downtown Development Authority. The ABA's fund balance at year end was \$152,005, of which \$1,368 was reserved for prepaid expenditures.

Revolving Loan Fund:

The Revolving Loan Fund is used to loan local businesses money at low interest rates. The Revolving Loan Fund reflected an increase in fund balance related to current year activity of \$11,932. Fund balance for this fund was \$381,753 at year end.

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Albion Trust Fund:

The Albion Trust Fund is used to account for funding for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility Bonds. This fund transferred \$110,000 during the fiscal year to the General Fund. The fund balance decreased as the result of current year activity by \$86,861. Fund balance for this fund was \$1,240,667 at year end.

Street Improvement Fund:

Local street reconstruction and non-grant major street reconstruction is accounted for in the Street Improvement Fund. Revenue for the Street Improvement Fund comes primarily from a special voted 3.0 mill levy dedicated to street improvements. The fund balance in the Street Improvement fund at year end was about \$36,280.

Library Trust Fund:

The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion. Fund balance for this fund was \$991,361 at year end, unchanged from the 2003 fund balance.

Water:

The City operates a water treatment plant and distribution system that serves the City and a small portion of the neighboring townships. In 2002 the City implemented a 5-year rate increase schedule for the water system. As a result of these rate changes, the water system in 2004 was able to cover all of its operating costs, including depreciation. Net assets for the water system decreased by \$9,233 to a December 31, 2004 level of \$5,170,229. The majority of these assets were invested in facilities and equipment. The water system had a negative cash balance of about \$125,404 at year end.

Sewer:

The City operates a wastewater treatment plant and collection system that serves the City and a small portion of a neighboring township. In 2004 the City approved a 3-year rate increase schedule for the sewer system. For several years, the sewer system has not been able to cover all of its operating costs, including depreciation. The new rate schedule is expected to correct this shortfall situation by the end of the third year of the phased in rate increases. Net assets for the sewer system decreased by \$199,794 to a December 31, 2004 level of \$5,122,844. The majority of these assets are invested in facilities and equipment. The sewer system had a cash balance of about \$769,802 at year end.

Capital Assets and Debt Administration

At the end of the year, the City had invested \$4,698,668 and \$9,772,354 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Depreciation charges for the fiscal year totaled \$307,482 for the governmental activities and \$473,119 for the business-type activities. The following chart provides more detail on these capital assets.

	<u>Governmental Activities</u>	<u>Business- Type Activities</u>	<u>Component Units</u>	<u>Total</u>
Land, infrastructure, net	\$ 2,469,940	\$ 93,700	\$ 201,655	\$ 2,765,295
Buildings and improvements, net	1,468,000	6,127,815	44,600	7,640,415
Vehicles and equipment, net	760,728	325,531	-	1,086,259
Sewer system, net	-	829,177	-	829,177
Water system, net	-	2,396,131	-	2,396,131
Capital assets, net	<u>\$ 4,698,668</u>	<u>\$ 9,772,354</u>	<u>\$ 246,255</u>	<u>\$14,717,277</u>

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

Long-term Debt:

As of December 31, 2004 the City had the following bond debt outstanding:

Primary Government

	<u>Jan. 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Dec. 31, 2004</u>
Governmental Activities				
General Obligation Bonds	\$ 1,520,000	\$ -	\$ 215,000	\$ 1,305,000
Transportation Bonds	60,000	-	20,000	40,000
Installment Purchase Agreement	350,000	225,000	30,000	545,000
EPA Liability	260,419	-	91,540	168,879
Loans Payable	75,378	-	15,869	59,509
Building Authority Loan	96,136	-	5,700	90,436
Compensated Absences	<u>101,271</u>	<u>384,875</u>	<u>-</u>	<u>486,146</u>
	2,463,204	609,875	378,109	2,694,970
Business-type Activities				
Revenue Bonds	1,520,000	-	75,000	1,445,000
Capital Lease	68,704	-	28,276	40,428
Compensated Absences	<u>48,906</u>	<u>153,640</u>	<u>-</u>	<u>202,546</u>
	<u>1,637,610</u>	<u>153,640</u>	<u>103,276</u>	<u>1,687,974</u>
Total Primary Government	4,100,814	763,515	481,385	4,382,944
Component Unit				
General Obligation Bonds	290,000	-	50,000	240,000
Land Contract	54,130	-	2,547	51,583
Loans Payable	<u>108,472</u>	<u>-</u>	<u>22,836</u>	<u>85,636</u>
Total Reporting Entity	<u>\$ 4,553,416</u>	<u>\$ 763,515</u>	<u>\$ 556,768</u>	<u>\$ 4,760,163</u>

As of December 31, 2004 the City had total outstanding debt for governmental activities (including accumulated vacation and sick time) of \$2,694,970. For business-type activities the outstanding debt (including accumulated vacation and sick time) was \$1,687,974 as of December 31, 2004.

As a result of the significant cost for issuing bonds, the City for the past several years has used an installment purchase process to purchase land, buildings and equipment. These obligations are reflected in the chart showing the City's outstanding debt.

Economic Factors and Next Year's Budget

For several years the City has levied its maximum millage amount, authorized under Headlee, for operating purposes. This millage is currently 11.9736 and it is expected that the City will continue to levy this amount of millage in the future. In addition, the City has several special millages that have been approved by the voters.

- a. Water plant bonds - currently at 1.3 mills
- b. Street reconstruction 2.9937 mills
- c. Public Safety 1.00 mills
- d. Recreation 0.80 mills

Also, the City levies 2.0 mills for solid waste under existing state statute. Thus, the current total City millage levy is 20.0673 mills. The last year for the special Public Safety and Recreation millages is fiscal year 2006. At this time it is anticipated that the City will not seek renewal of the special millage amounts.

City Of Albion

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2004

State revenue sharing continues to be of concern. Over the last 3 years there has been a significant reduction in the amount of state revenue sharing received by the City. The prospect of an increase in funding in the next couple of years is not good.

The local City income tax has also experienced a significant reduction over the last 3 years. Improvements to this funding source are dependent upon improvements to the Michigan economy and an increase in the number of local jobs.

In the area of expenses, the City currently has settled contracts with all of its four unions, which do not expire until December 31, 2007. General pay increases have been set at 2% a year through 2007.

Just like other employers, the City continues to struggle with the significant increases in cost for medial insurance for its employees. Although changes have been made in the coverages provided, the City continues to expect to see double digit increases for the next few years.

The City continues to pursue grants to assist with capital projects, as well as activities that can spur economic development and job creation in the City. As a result of the special voted millage for street reconstruction, the City will continue to have an active street reconstruction program each year.

The City has experienced no specific events that it believes will materially impact the finances of the City for the next few years. However, the continued lagging of the economy in Michigan, as well as the limitations on tax millage, will provide on-going challenges to the City to provide necessary services within existing resources.

Contacting the City's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors and creditors with a general overview of the City's finances and to demonstrate the accountability for the money it receives. If there are questions about this report, or a need for additional information, contact the City Manager or the City Treasurer at (517) 629-5535.

BASIC FINANCIAL STATEMENTS

City of Albion

STATEMENT OF NET ASSETS

December 31, 2004

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
ASSETS				
Current assets				
Cash and cash equivalents	\$ 2,025,385	\$ 429,540	\$ 2,454,925	\$ 51,807
Investments	2,169,702	-	2,169,702	-
Receivables	1,239,436	509,668	1,749,104	81,966
Due from other governmental units	314,703	-	314,703	13,257
Due from others	132,113	-	132,113	-
Prepays	134,530	10,260	144,790	295
Inventories	8,434	3,509	11,943	-
Total current assets	6,024,303	952,977	6,977,280	147,325
Noncurrent assets				
Cash and cash equivalents - restricted	-	214,858	214,858	-
Investments	-	1,100,648	1,100,648	-
Capital assets, net	4,698,668	9,772,354	14,471,022	246,255
Total noncurrent assets	4,698,668	11,087,860	15,786,528	246,255
TOTAL ASSETS	10,722,971	12,040,837	22,763,808	393,580
LIABILITIES				
Current liabilities				
Accounts payable	49,682	14,694	64,376	6,305
Accrued liabilities	37,973	23,998	61,971	4,369
Accrued wages	100,160	21,098	121,258	3,942
Due to other governmental units	299	-	299	13,256
Accrued interest payable	23,587	-	23,587	7,230
Deferred revenue	683,973	-	683,973	768
Current portion of compensated absences	183,464	58,888	242,352	-
Current portion of long-term debt	195,979	105,017	300,996	86,361
Total current liabilities	1,275,117	223,695	1,498,812	122,231
Noncurrent liabilities				
Noncurrent portion of compensated absences	302,682	143,658	446,340	-
Noncurrent portion of long-term debt	2,012,845	1,380,411	3,393,256	290,858
Total noncurrent liabilities	2,315,527	1,524,069	3,839,596	290,858
TOTAL LIABILITIES	3,590,644	1,747,764	5,338,408	413,089
NET ASSETS				
Invested in capital assets, net of related debt	2,489,844	8,286,926	10,776,770	109,036
Restricted for:				
Debt service	72,341	-	72,341	-
Other purposes	212,859	-	212,859	-
Unrestricted	4,357,283	2,006,147	6,363,430	(128,545)
TOTAL NET ASSETS	\$ 7,132,327	\$ 10,293,073	\$ 17,425,400	\$ (19,509)

See accompanying notes to financial statements.

City of Albion

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Net (Expense) Revenue and Changes in Net Assets					
	Expenses	Program Revenues		Primary Government		Component Units
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-type Activities	
Primary government						
Governmental activities						
General government	\$ 1,396,882	\$ 274,137	\$ 91,627	\$ (1,031,118)	\$ -	\$ -
Public safety	2,471,989	39,649	88,122	(2,344,218)	-	(2,344,218)
Public works	789,933	-	675,156	(114,777)	-	(114,777)
Health and welfare	157,134	30,717	-	(126,417)	-	(126,417)
Community and economic development	373,275	235,482	258,486	120,693	-	120,693
Recreation and cultural	344,962	19,550	16,301	(309,111)	-	(309,111)
Other	236,386	221,659	-	(14,727)	-	(14,727)
Interest on long-term debt	8,166	-	-	(8,166)	-	(8,166)
Total governmental activities	5,778,727	821,194	1,129,692	(3,827,841)	-0-	-0-
Business-type activities						
Sewer system	1,022,225	807,202	-	-	(215,023)	(215,023)
Water system	812,261	768,961	6,743	-	(36,557)	-
Total business-type activities	1,834,486	1,576,163	6,743	-0-	(251,580)	-0-
Total primary government	\$ 7,613,213	\$ 2,397,357	\$ 1,136,435	(3,827,841)	(251,580)	(4,079,421)
Component units						
Economic Development Corporation	\$ 174,834	\$ 103,325	\$ -	-	-	(71,509)
Downtown Development Authority	266,317	-	100,950	-	-	(165,367)
Tax Increment Finance Authority	187,726	8,030	-	-	-	(179,696)
Total component units	\$ 628,877	\$ 111,355	\$ 100,950	-0-	-0-	(416,572)
General revenues						
Property taxes				2,494,725	-	2,494,725
Income taxes				1,080,865	-	1,080,865
State shared revenue				1,282,945	-	1,282,945
Investment earnings				77,047	14,365	91,412
Miscellaneous				302,236	28,188	330,424
Total general revenues				5,237,818	42,553	5,280,371
Change in net assets				1,409,977	(209,027)	1,200,950
Net assets, beginning of the year				5,722,350	10,224,209	15,946,559
Prior period adjustments				-	277,891	277,891
Net assets, end of the year				\$ 7,132,327	\$ 10,293,073	\$ 17,425,400
						\$ (19,509)

See accompanying notes to financial statements.

City of Albion
GOVERNMENTAL FUNDS BALANCE SHEET
December 31, 2004

	General	Community Development Block Grant	Special Albion Building Authority	Revolving Loan
ASSETS				
Cash and cash equivalents	\$ (254,356)	\$ 384,680	\$ 408,168	\$ 381,746
Investments	-	-	-	-
Receivables				
Accounts	63,257	50,783	-	-
Taxes	290,697	-	-	-
Loans	-	522,048	-	234,776
Due from other governmental units	210,843	-	-	-
Due from other funds	186,814	15,661	10,420	-
Due from others	132,113	-	-	-
Prepays	77,157	-	1,368	-
Inventories	-	-	-	-
TOTAL ASSETS	\$ 706,525	\$ 973,172	\$ 419,956	\$ 616,522
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 37,733	\$ 847	\$ 1,000	\$ -
Accrued liabilities	11,664	-	21,916	-
Accrued wages	79,711	-	-	-
Due to other funds	26,081	99,029	245,035	-
Due to other governmental units	-	-	-	-
Deferred revenue	139,659	449,205	-	234,769
TOTAL LIABILITIES	294,848	549,081	267,951	234,769
FUND BALANCES				
Reserved for				
Library trust	-	-	-	-
Inventories	-	-	-	-
Prepays	77,157	-	1,368	-
Park fence	16,375	-	-	-
Public safety	8,443	-	-	-
Library activities	-	-	-	-
Perpetual care	-	-	-	-
Debt service	-	-	-	-
Unreserved - undesignated	309,702	424,091	150,637	381,753
TOTAL FUND BALANCES	411,677	424,091	152,005	381,753
TOTAL LIABILITIES AND FUND BALANCES	\$ 706,525	\$ 973,172	\$ 419,956	\$ 616,522

See accompanying notes to financial statements.

Revenue	Capital Projects	Permanent		
Albion Trust	Street Improvements	Library Trust	Nonmajor Governmental Funds	Total Governmental Funds
\$ 22,326	\$ 313,342	\$ -	\$ 540,324	\$ 1,796,230
1,178,341	-	991,361	-	2,169,702
-	-	-	2,054	116,094
-	42,456	-	33,365	366,518
-	-	-	-	756,824
-	-	-	103,860	314,703
-	-	-	442,250	655,145
-	-	-	-	132,113
40,000	-	-	9,975	128,500
-	-	-	5,815	5,815
<u>\$ 1,240,667</u>	<u>\$ 355,798</u>	<u>\$ 991,361</u>	<u>\$ 1,137,643</u>	<u>\$ 6,441,644</u>
\$ -	\$ -	\$ -	\$ 7,683	\$ 47,263
-	-	-	4,393	37,973
-	-	-	18,921	98,632
-	285,000	-	-	655,145
-	-	-	299	299
-	34,518	-	39,963	898,114
-0-	319,518	-0-	71,259	1,737,426
-	-	991,361	-	991,361
-	-	-	5,815	5,815
40,000	-	-	9,975	128,500
-	-	-	-	16,375
-	-	-	-	8,443
-	-	-	168,934	168,934
-	-	-	366,531	366,531
-	-	-	72,341	72,341
1,200,667	36,280	-	442,788	2,945,918
<u>1,240,667</u>	<u>36,280</u>	<u>991,361</u>	<u>1,066,384</u>	<u>4,704,218</u>
<u>\$ 1,240,667</u>	<u>\$ 355,798</u>	<u>\$ 991,361</u>	<u>\$ 1,137,643</u>	<u>\$ 6,441,644</u>

City of Albion

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS

December 31, 2004

Total fund balances - governmental funds **\$ 4,704,218**

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 7,911,193	
Accumulated depreciation is	<u>(3,212,525)</u>	
Capital assets, net		4,698,668

Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets.

Net assets of governmental activities accounted for in Internal Service Funds	562,539	
Net capital assets of Internal Service Funds included in total capital assets above	<u>(331,543)</u>	
		230,996

Long-term receivables are not available to pay for current period expenditures and, therefore, are deferred in the funds. These consist of:

Deferred revenue		214,141
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Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:

Bonds, loans, and leases payable	2,208,824	
Accrued interest payable	23,587	
Compensated absences	<u>483,285</u>	
		<u>(2,715,696)</u>

Net assets of governmental activities		<u><u>\$ 7,132,327</u></u>
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See accompanying notes to financial statements.

City of Albion

Governmental Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	General	Community Development Block Grant	Special Albion Building Authority	Revolving Loan
REVENUES				
Taxes	\$ 2,628,067	\$ -	\$ -	\$ -
Licenses and permits	54,658	-	-	-
Intergovernmental	1,456,731	-	258,486	-
Charges for services	297,279	31,780	-	-
Fines and forfeits	72,225	-	-	-
Interest and rents	13,736	3,750	225,662	12,332
Other	171,766	-	114,577	-
TOTAL REVENUES	4,694,462	35,530	598,725	12,332
EXPENDITURES				
General government	896,760	-	-	-
Public safety	2,284,449	-	-	-
Public works	200,456	-	-	-
Health and welfare	111,134	-	-	-
Community and economic development	15,000	-	353,075	400
Recreation and cultural	331,307	-	-	-
Other	236,386	-	-	-
Debt service	-	-	-	-
Capital outlay	-	-	-	-
TOTAL EXPENDITURES	4,075,492	-0-	353,075	400
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	618,970	35,530	245,650	11,932
OTHER FINANCING SOURCES (USES)				
Debt proceeds	-	-	-	-
Transfers in	110,000	-	-	-
Transfers out	(270,740)	-	(157,250)	-
TOTAL OTHER FINANCING SOURCES (USES)	(160,740)	-0-	(157,250)	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	458,230	35,530	88,400	11,932
Fund balances, beginning of year	29,879	-	65,571	183,405
Prior period adjustments	(76,432)	388,561	(1,966)	186,416
Fund balances, end of year	<u>\$ 411,677</u>	<u>\$ 424,091</u>	<u>\$ 152,005</u>	<u>\$ 381,753</u>

See accompanying notes to financial statements.

Revenue	Capital Projects	Permanent		
Albion Trust	Street Improvements	Library Trust	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 315,196	\$ -	\$ 418,185	\$ 3,361,448
-	-	-	-	54,658
-	-	-	689,976	2,405,193
-	-	-	74,497	403,556
-	-	-	45,039	117,264
23,290	-	17,193	3,526	299,489
-	-	-	46,612	332,955
23,290	315,196	17,193	1,277,835	6,974,563
151	-	-	577,960	1,474,871
-	-	-	3,151	2,287,600
-	196,394	-	783,010	1,179,860
-	-	-	-	111,134
-	-	-	-	368,475
-	-	-	-	331,307
-	-	-	-	236,386
-	-	-	388,159	388,159
-	-	-	43,600	43,600
151	196,394	-0-	1,795,880	6,421,392
23,139	118,802	17,193	(518,045)	553,171
-	-	-	225,000	225,000
-	-	-	1,087,816	1,197,816
(110,000)	(363,515)	(17,193)	(279,118)	(1,197,816)
(110,000)	(363,515)	(17,193)	1,033,698	225,000
(86,861)	(244,713)	-0-	515,653	778,171
1,217,528	280,993	991,361	667,971	3,436,708
110,000	-	-	(117,240)	489,339
\$ 1,240,667	\$ 36,280	\$ 991,361	\$ 1,066,384	\$ 4,704,218

City of Albion

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Net change in fund balances - total governmental funds **\$ 778,171**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 1,091,176	
Depreciation expense	<u>(307,482)</u>	
Excess of capital outlay over depreciation expense		783,694

Internal service funds are used by management to charge the costs of certain activities to individual funds.

(Decrease) in net assets of Internal Service Funds	(60,608)	
Depreciation expense of Internal Service Funds included in the total above	<u>78,101</u>	
		17,493

Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.

Deferred revenue		214,141
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Debt proceeds	(225,000)	
Long-term debt principal retirements	<u>378,109</u>	
		153,109

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	1,884	
(Increase) in accrued compensated absences	<u>(538,515)</u>	
		<u>(536,631)</u>

Change in net assets of governmental activities **\$ 1,409,977**

See accompanying notes to financial statements.

City of Albion
Proprietary Funds
STATEMENT OF NET ASSETS
December 31, 2004

	Business-type Activities	
	Sewer Fund	Water Fund
ASSETS		
Current assets		
Cash and cash equivalents	\$ 769,594	\$ (340,054)
Accounts receivable	256,665	253,003
Inventories	2,508	1,001
Prepays	7,110	3,150
Total current assets	1,035,877	(82,900)
Noncurrent assets		
Cash and cash equivalents - restricted	208	214,650
Investments	309,785	790,863
Capital assets, net	3,974,861	5,797,493
Total noncurrent assets	4,284,854	6,803,006
TOTAL ASSETS	5,320,731	6,720,106
LIABILITIES		
Current liabilities		
Accounts payable	9,014	5,680
Accrued liabilities	1,464	22,534
Accrued wages	13,957	7,141
Current portion of compensated absences	36,559	22,329
Current portion of long-term debt	36,317	68,700
Total current liabilities	97,311	126,384
Noncurrent liabilities		
Noncurrent portion of compensated absences	90,165	53,493
Noncurrent portion of long-term debt	10,411	1,370,000
Total noncurrent liabilities	100,576	1,423,493
TOTAL LIABILITIES	197,887	1,549,877
NET ASSETS		
Invested in capital assets, net of related debt	3,928,133	4,358,793
Unrestricted	1,194,711	811,436
TOTAL NET ASSETS	\$ 5,122,844	\$ 5,170,229

See accompanying notes to financial statements.

<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 429,540	\$ 229,155
509,668	-
3,509	2,619
10,260	6,030
<u>952,977</u>	<u>237,804</u>
214,858	-
1,100,648	-
9,772,354	331,543
<u>11,087,860</u>	<u>331,543</u>
12,040,837	569,347
14,694	2,419
23,998	-
21,098	1,528
58,888	572
105,017	-
<u>223,695</u>	<u>4,519</u>
143,658	2,289
1,380,411	-
<u>1,524,069</u>	<u>2,289</u>
<u>1,747,764</u>	<u>6,808</u>
8,286,926	331,543
2,006,147	230,996
<u>\$ 10,293,073</u>	<u>\$ 562,539</u>

City of Albion

Proprietary Funds

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Year Ended December 31, 2004

	Business-type Activities	
	Sewer Fund	Water Fund
OPERATING REVENUES		
Charges for services	\$ 807,202	\$ 768,961
Other	12,467	15,721
TOTAL OPERATING REVENUES	819,669	784,682
OPERATING EXPENSES		
Salaries and wages	350,397	181,073
Fringe benefits	154,884	74,698
Contractual services	35,527	32,797
Supplies	99,243	73,409
Utilities	119,631	63,665
Insurance and bonds	7,110	3,150
Administrative services	35,264	35,264
Building and equipment rental	-	8,980
Other	1,418	1,374
Depreciation	214,559	258,560
TOTAL OPERATING EXPENSES	1,018,033	732,970
OPERATING INCOME (LOSS)	(198,364)	51,712
NONOPERATING REVENUES (EXPENSES)		
Interest earned	2,762	11,603
Intergovernmental - State	-	6,743
Interest expense and fees	(4,192)	(79,291)
TOTAL NONOPERATING REVENUES (EXPENSES)	(1,430)	(60,945)
CHANGE IN NET ASSETS	(199,794)	(9,233)
Net assets, beginning of year	5,165,856	5,058,353
Prior period adjustments	156,782	121,109
Net assets, end of year	\$ 5,122,844	\$ 5,170,229

See accompanying notes to financial statements.

<u>Total</u>	<u>Governmental Activities Internal Service Fund</u>
\$ 1,576,163	\$ 160,190
28,188	857
<u>1,604,351</u>	<u>161,047</u>
531,470	43,255
229,582	17,522
68,324	334
172,652	51,796
183,296	10,485
10,260	6,030
70,528	7,836
8,980	-
2,792	266
<u>473,119</u>	<u>78,100</u>
<u>1,751,003</u>	<u>215,624</u>
(146,652)	(54,577)
14,365	-
6,743	-
<u>(83,483)</u>	<u>-</u>
<u>(62,375)</u>	<u>-0-</u>
(209,027)	(54,577)
10,224,209	617,651
<u>277,891</u>	<u>(535)</u>
<u><u>\$ 10,293,073</u></u>	<u><u>\$ 562,539</u></u>

City of Albion

Proprietary Funds

STATEMENT OF CASH FLOWS

Year Ended December 31, 2004

	Business-type Activities		
	Sewer Fund	Water Fund	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	\$ 797,204	\$ 682,382	\$ 1,479,586
Cash paid to suppliers	(308,499)	(236,660)	(545,159)
Cash paid for employee benefits	(532,903)	(297,791)	(830,694)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(44,198)	147,931	103,733
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Payments of borrowing	(6,300)	(23,700)	(30,000)
State grants	-	6,743	6,743
Purchase of capital assets	(3,690)	(27,077)	(30,767)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(9,990)	(44,034)	(54,024)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earned	2,762	11,603	14,365
Purchase of investments	(2,762)	(8,009)	(10,771)
Interest expense and fees	(4,192)	(79,291)	(83,483)
NET CASH (USED) BY INVESTING ACTIVITIES	(4,192)	(75,697)	(79,889)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(58,380)	28,200	(30,180)
Cash and cash equivalents, beginning of year	828,182	(153,604)	674,578
Cash and cash equivalents, end of year	<u>\$ 769,802</u>	<u>\$ (125,404)</u>	<u>\$ 644,398</u>
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	\$ (198,364)	\$ 51,712	\$ (146,652)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	214,559	258,560	473,119
(Increase) decrease in accounts receivable	(30,124)	(99,150)	(129,274)
(Increase) in prepaids	(7,110)	(3,150)	(10,260)
Decrease in due from other funds	14,769	-	14,769
(Increase) in inventories	-	-	-0-
(Decrease) in accounts payable	(10,306)	(18,021)	(28,327)
Increase in compensated absences	5,515	12,868	18,383
Increase (decrease) in accrued liabilities	(33,137)	(54,888)	(88,025)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (44,198)	\$ 147,931	\$ 103,733

See accompanying notes to financial statements.

Governmental
Activities
<u>Internal</u>
Service
<u>Fund</u>

\$	155,056
	(77,299)
	<u>(57,625)</u>

20,132

-
-
-

-0-

-
-
-

-0-

20,132

209,023

\$ 229,155

\$ (54,577)

78,100
39
(6,030)

-
(55)
(497)

-
3,152

\$ 20,132

City of Albion

Fiduciary Funds

STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2004

	Agency Funds	Private Purpose Trusts
ASSETS		
Cash and cash equivalents	\$ 371,520	\$ 618,973
Investments	-	13,794,874
Taxes receivable	(21,389)	-
Interest receivable	-	86,143
Other assets	1,551	-
TOTAL ASSETS	<u>\$ 351,682</u>	<u>\$ 14,499,990</u>
LIABILITIES		
Due to State	\$ 48,383	\$ -
Due to County	88,413	-
Due to Schools	214,886	-
TOTAL LIABILITIES	<u>\$ 351,682</u>	<u>-0-</u>
NET ASSETS		
Held in trust for private purposes		<u>\$ 14,499,990</u>

See accompanying notes to financial statements.

City of Albion

Fiduciary Funds

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2004

	Private Purpose Trust Funds
ADDITIONS	
Investment income	
Interest and dividends	\$ 502,056
Net increase in fair value of investments	446,231
Gain on sales of investments	442,033
Less investment expenses	<u>(22,930)</u>
Net investment income	1,367,390
Contributions	
Employer	<u>57,945</u>
TOTAL ADDITIONS	1,425,335
DEDUCTIONS	
Benefit payments	572,708
Administrative expenses	<u>64,106</u>
TOTAL DEDUCTIONS	<u>636,814</u>
CHANGE IN NET ASSETS	788,521
Net assets, beginning of year	13,614,804
Prior period adjustments	<u>96,665</u>
Net assets, end of year	<u><u>\$ 14,499,990</u></u>

See accompanying notes to financial statements.

City of Albion

Component Units

COMBINING STATEMENT OF NET ASSETS

December 31, 2004

	Economic Development Corporation	Downtown Development Authority	Tax Increment Finance Authority	Total Component Units
ASSETS				
Current assets				
Cash and cash equivalents	\$ 1,506	\$ 41,098	\$ 9,203	\$ 51,807
Receivables	-	42,400	39,566	81,966
Due from other governmental units	13,256	-	1	13,257
Prepays	-	220	75	295
Total current assets	14,762	83,718	48,845	147,325
Noncurrent assets				
Capital assets, net	59,255	-	187,000	246,255
TOTAL ASSETS	74,017	83,718	235,845	393,580
LIABILITIES				
Current liabilities				
Accounts payable	5,492	227	586	6,305
Accrued liabilities	1,537	-	2,832	4,369
Accrued wages	871	969	2,102	3,942
Accrued interest payable	-	7,230	-	7,230
Due to other governmental units	-	-	13,256	13,256
Deferred revenue	768	-	-	768
Current portion of long-term debt	3,525	60,000	22,836	86,361
Total current liabilities	12,193	68,426	41,612	122,231
Noncurrent liabilities				
Noncurrent portion of long-term debt	48,058	180,000	62,800	290,858
TOTAL LIABILITIES	60,251	248,426	104,412	413,089
NET ASSETS				
Invested in capital assets, net of related debt	7,672	-	101,364	109,036
Unrestricted	6,094	(164,708)	30,069	(128,545)
TOTAL NET ASSETS	\$ 13,766	\$ (164,708)	\$ 131,433	\$ (19,509)

See accompanying notes to financial statements.

City of Albion

Component Units

STATEMENT OF ACTIVITIES

Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Economic Development Corporation	\$ 174,834	\$ 103,325	\$ -	\$ (71,509)
Downtown Development Authority	266,317	-	100,950	(165,367)
Tax Increment Finance Authority	187,726	8,030	-	(179,696)
TOTALS	<u>\$ 628,877</u>	<u>\$ 111,355</u>	<u>\$ 100,950</u>	<u>(416,572)</u>
General revenues				
Property taxes				277,940
Investment earnings				878
Miscellaneous				37,023
Total general revenues				315,841
CHANGE IN NET ASSETS				(100,731)
Net assets, beginning of year				81,222
Net assets, end of year				<u>\$ (19,509)</u>

See accompanying notes to financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Albion is located in Calhoun County, Michigan and has a population of approximately 9,144. The City of Albion operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has six (6) City Council members who are elected for overlapping four (4) year terms. The Council elects one (1) of its members to serve as Mayor Pro-Tem. A Mayor is elected at large for a two (2) year term. The Council appoints the City Manager and City Attorney.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity*, and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Albion (primary government) and its component units. Blended component units, although legally separate entities, are, in substance, part of the City's operations and so data from these units are combined with data of the primary government. Discretely presented component units, on the other hand, are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the City.

2. Blended Component Units

The Albion Building Authority is a five (5) member board governed by the City Council. One member of the board must be a resident of the Maple Grove Apartments. Its purpose under State Statute is to manage, maintain, develop, and acquire property for the City. It is reported in the Special Revenue and Debt Service fund categories.

The Library is governed by a five (5) member board, who are all appointed by the Mayor and City Council. Its purpose is to provide access to books, periodicals, and other printed media to the residents of the City. It is reported as a Special Revenue Fund.

The Albion Trust is governed by a three (3) member board appointed by current board members or by the City. Its purposes include construction of senior citizen facilities, supporting the debt of the Senior Citizen Facility, and other betterments to the City. It is reported in the Special Revenue Fund category.

The Albion Public Safety Officers' Pension Trust is governed by a five (5) member pension board that includes two (2) individuals chosen by the Mayor and the City Council. Its purpose is to operate the retirement system. It is reported in the Fiduciary Fund category.

3. Discretely Presented Component Units

The component units are reported in a separate column to emphasize that, while legally separate, the City remains financially accountable for these entities or the nature and significance of the relationship between the entities and the City is such that exclusion of the entities would render the financial statements misleading or incomplete. The financial statements contain the following discretely presented component units:

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Discretely Presented Component Units - continued

- a. Economic Development Corporation - The Economic Development Corporation (EDC) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The EDC is governed jointly by a nine (9) member board with the Tax Increment Finance Authority.
- b. Downtown Development Authority - The Downtown Development Authority (DDA) was created to correct and prevent deterioration in the downtown district, encourage historical preservation, and to promote economic growth within the downtown district. The DDA's governing body, which consists of 9-12 members, is selected by the Mayor and City Council. In addition, the DDA's budget is subject to approval by the City Council.
- c. Tax Increment Finance Authority - The Tax Increment Finance Authority (TIFA) was created to provide means and methods for the encouragement and assistance of industrial and commercial enterprises in relocating, purchasing, constructing, improving, or expanding within the City so as to provide needed services and facilities of such enterprises to the residents of the City. The TIFA is governed jointly by a nine (9) member board with the Economic Development Corporation. The TIFA also acts as an agent for the Revolving Loan Fund, which is included as a Special Revenue Fund of the City.

4. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All nonfiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

The fund financial statements present the City's individual major funds and aggregated nonmajor funds. Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and the major individual enterprise funds are reported as separate columns in the fund financial statements.

The major funds of the City are:

- a. The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government except for those that are required to be accounted for in another fund.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Basis of Presentation - continued

- b. The Community Development Block Grant Fund is used to account for the financial resources used to improve the quality of the community.
- c. The Albion Building Authority Fund was established under State Statutes to handle capital activities for the City.
- d. The Revolving Loan Fund is used to loan money to local businesses at low interest rates.
- e. The Albion Trust Fund is used to provide grant dollars for City improvements as a whole and to set dollars aside for the Maple Grove Apartment Facility.
- f. The Library Trust Fund is used to account for the financial resources of the Albion Public Library to endow its future for the citizens of Albion.
- g. The Street Improvement Fund is used to account for financial resources to improve the quality of streets.
- h. The Sewer Fund is used to account for the operations required to provide sewer services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.
- i. The Water Fund is used to account for the operations required to provide water services to the general public. The costs (expenses, including depreciation) are financed or recovered primarily through user charges.

5. Measurement Focus

The government-wide, proprietary, and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for Agency Funds since assets equal liabilities.

6. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Basis of Accounting - continued

All governmental and similar trust funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

Private-sector standards of accounting and financial reporting issued to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with, or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when, both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

7. Budgets and Budgetary Accounting

The General and major Special Revenue Fund budgets shown as required supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

- a. Six weeks prior to December 31, the City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following January 1. The operating budgets include proposed expenditures and resources to finance them.
- b. A Public Hearing is conducted to obtain taxpayers' comments.
- c. On or before the second regular council meeting in December, the budget is legally enacted through passage of a resolution.
- d. The budget is legally adopted at the department level for the General Fund and total expenditure level for the Special Revenue Funds; however, they are maintained at the account level for control purposes.
- e. The City does not employ encumbrance accounting as an extension of formal budgetary integration in the governmental funds. Appropriations unused at December 31 are not carried forward to the following fiscal year.
- f. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Cash and Cash Equivalents

Cash and cash equivalents consist of checking, savings, money market, certificates of deposit with a maturity from date of purchase of 90 days or less, and pooled investment fund accounts. The cash equivalents are recorded at cost, which approximates market value.

9. Investments

Investments consist of certificates of deposit and U.S. Government Securities with original maturities of greater than 90 days. Investments are recorded at market value in accordance with GASB 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

10. Due from Other Governmental Units

Due from other governmental units consists of amounts due from the State of Michigan and amounts due from component units for various payments and grants and accounts receivable for charges for services provided to local governmental units.

Due from other governmental units recorded in the component unit Economic Development Corporation consists of \$13,256 that had not yet been transferred to the EDC from the Tax Increment Finance Authority as of year-end.

11. Receivables

Receivables consist of amounts due related to charges for services, interest receivable, and other amounts owed to the City at year-end.

12. Property Tax

The City of Albion bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Albion on July 1 and are payable without penalty through August 10. The July 1 levy is composed of the City's millage, delinquent assessments, and State Education Tax. All real property taxes not paid to the City by February 28 are turned over to the Calhoun County Treasurer for collection. The Calhoun County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection.

The City is permitted by charter to levy taxes up to 12.50 mills (\$12.50 per \$1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended December 31, 2004, the City levied 11.9736 mills per \$1,000 of taxable valuation for general governmental services. In addition, the City levied 2.9937 mills for street maintenance, 2.0000 mills for solid waste services, 1.3000 mills for debt service payments, 1.0000 mills for public safety services, and 0.8000 mills for recreational services. The total taxable value for the 2004 levy for property within the City was \$115,700,738.

13. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections made within 60 days after year end that relate to the prior years. Estimated refunds of these amounts are considered to be immaterial.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**14. Inventories**

Inventories are valued at cost. Cost is determined using the first-in, first-out method. Inventory consists of expendable supplies held for consumption. Inventories are capitalized under the consumption method, whereby expenditures are capitalized as inventory until used. Reported inventories in governmental funds are equally offset by a fund balance reserve, which indicates that they do not constitute "available expendable resources" even though they are a component of net current assets.

15. Accrued Compensated Absences

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for accumulated vacation days according to contract or personnel policies. In the event of termination by retirement or death, an employee is paid for accumulated sick days according to contract or personnel policies.

16. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as operating transfers. Transfers between governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

The Internal Service Fund (Equipment Pool) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

17. Capital Assets

Capital assets include buildings and equipment and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities column. Capital assets are those with an initial individual cost of \$5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and improvements	5 - 50 years
Equipment	3 - 50 years
Infrastructure - streets and bridges	10 - 30 years
Vehicles	5 - 15 years
Sewer system	20 - 50 years
Water system	10 - 50 years

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

18. Long-term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

19. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

20. Accounting Change

As of January 1, 2004, the City implemented the provisions of Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments (Statement) along with all related statements and interpretations. Certain significant changes in the Statement include the following:

- A Management's Discussion and Analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations has been included.
- Government-wide financial statements (statement of net assets and statement of activities) prepared using full accrual accounting for all of the City's activities have been provided. A reconciliation is presented between the fund level (modified accrual) and government-wide (full accrual) statements since their measurement focus is not the same.
- Capital assets reported on the statement of net assets include assets in the amount of \$6,239,531, which were previously reported in the General Fixed Assets Account Group. The government-wide statement of activities reflects depreciation expenses on the City's capital assets.
- Long-term obligations reported on the statement of net assets include \$2,726,313 of compensated absences and bonds payable, which were previously reported in the government-wide statements.
- The governmental fund financial statements focus on major funds rather than fund types.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City deposits consist of a common checking account and various savings, money market, checking, and pooled investment fund accounts maintained by individual funds and are reported as cash, cash equivalents, and investments in the financial statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

- a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or the United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 6 of 1855 PA 105, MCL 21.146.
- c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d. The United States government or federal agency obligations repurchase agreements.
- e. Bankers' acceptances of United States banks.
- f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143 to secure deposits of State funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of December 31, 2004, the carrying amounts and bank balances for each type of bank account are as follows:

<u>ACCOUNT TYPE</u>	<u>Carrying Amount</u>	<u>Bank Balance</u>
PRIMARY GOVERNMENT		
Checking	\$ 1,962,010	\$ 1,492,971
Certificates of deposit	<u>2,295,149</u>	<u>2,295,149</u>
Total Primary Government	4,257,159	3,788,120
FIDUCIARY FUNDS		
Checking	490,019	490,019
COMPONENT UNITS		
Checking and savings	(107,965)	(107,965)
Certificates of deposit	<u>124,090</u>	<u>124,090</u>
Total Component Units	<u>16,125</u>	<u>16,125</u>
TOTAL REPORTING ENTITY	<u>\$ 4,763,303</u>	<u>\$ 4,294,264</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

The primary government and component units' cash and cash equivalents captions on the basic financial statements include \$1,827 and \$50, respectively, of imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of December 31, 2004, the City accounts were insured by the FDIC for \$516,375 and the amount of \$3,777,889 was uninsured and uncollateralized.

Pooled investment funds

As of December 31, 2004, the carrying amounts and market values for each investment are as follows:

<u>INVESTMENT TYPE</u>	<u>Carrying Amount</u>	<u>Market Value</u>
PRIMARY GOVERNMENT		
Insured or registered for which the securities are held by the City's agent not in the City's name		
U.S. Government Securities	\$ 1,658,821	\$ 1,658,821
Uncategorized pooled investment funds	<u>22,326</u>	<u>22,326</u>
TOTAL PRIMARY GOVERNMENT	1,681,147	1,681,147
FIDUCIARY FUNDS		
Insured or registered for which the securities are held by the City's agent not in the City's name		
U.S. Government Securities	\$ 500,474	\$ 500,474
Uncategorized pooled investment funds	<u>13,794,874</u>	<u>13,794,874</u>
TOTAL FIDUCIARY FUNDS	14,295,348	14,295,348
COMPONENT UNITS		
Insured or registered for which the securities are held by the City's agent not in the City's name		
U.S. Government Securities	<u>35,632</u>	<u>35,632</u>
TOTAL REPORTING ENTITY	<u>\$16,012,127</u>	<u>\$16,012,127</u>

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based upon criteria disclosed in Note A. The following summarizes the categorization of these amounts as of December 31, 2004:

	<u>Primary Government</u>	<u>Component Units</u>	<u>Fiduciary Funds</u>	<u>Reporting Entity</u>
Cash and cash equivalents	\$ 2,454,925	\$ 51,807	\$ 990,493	\$ 3,497,225
Cash and cash equivalents - restricted	214,858	-	-	214,858
Investments	<u>3,270,350</u>	<u>-</u>	<u>13,794,874</u>	<u>17,065,224</u>
	<u>\$ 5,940,133</u>	<u>\$ 51,807</u>	<u>\$14,785,367</u>	<u>\$20,777,307</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE C: CASH AND CASH EQUIVALENTS - RESTRICTED

The following summarizes the restricted cash and cash equivalents as of December 31, 2004:

	<u>Bond Reserve</u>
Enterprise Funds	<u>\$ 214,858</u>

NOTE D: POOLING OF CASH AND INVESTMENTS

The City's balance sheet and statement of net assets reflect cash and investments with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

Cash disbursed in excess of amounts recorded as assets as of December 31, 2004, are as follows:

<u>Fund</u>	<u>Negative Pooled Cash</u>	<u>Nonpooled Cash and Cash Equivalents</u>	<u>Financial Statements</u>
PRIMARY GOVERNMENT			
General Fund	\$(410,638)	\$ 156,282	\$(254,356)
Debt Service Funds			
Albion Building Authority Bonds Fund	(134,265)	-	(134,265)
EDC and DDA Building	(899)	-	(899)
Capital Projects Fund			
MDOT Street Reconstruction Fund	(282,865)	-	(282,865)
Water Fund	(333,130)	207,726	(125,404)
COMPONENT UNIT			
Tax Increment Finance Authority	(150,569)	159,772	9,203

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at December 31, 2004, are as follows:

Due to General Fund from:	
Community Development Block Grant Fund	\$ 99,029
Albion Building Authority Fund	<u>87,785</u>
	<u>\$ 186,814</u>
Due to Community Development Block Grant Fund from:	
General Fund	<u>\$ 15,661</u>
Due to Albion Building Authority Fund from:	
General Fund	<u>\$ 10,420</u>
Due to nonmajor governmental funds from:	
Albion Building Authority Fund	\$ 157,250
Street Improvements Fund	<u>285,000</u>
	<u>\$ 442,250</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE E: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business type funds, and the component unit have been eliminated.

Transfers to General Fund from:	
Albion Trust Fund	<u>\$ 110,000</u>
Transfers to nonmajor governmental funds from:	
Nonmajor governmental funds	\$ 279,118
Street Improvements Fund	363,515
Albion Building Authority Fund	157,250
Library Trust Fund	17,193
General Fund	<u>270,740</u>
	<u>\$ 1,087,816</u>

NOTE G: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2004 was as follows:

Primary Government

	Restated Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Governmental activities				
Capital assets not being depreciated:				
Land	\$ 345,604	\$ 45,302	\$ -	\$ 390,906
Capital assets being depreciated				
Buildings and improvements	3,123,940	70,000	-	3,193,940
Infrastructure	1,614,000	653,000	-	2,267,000
Equipment and furniture	446,153	225,000	-	671,153
Vehicles	<u>1,290,320</u>	<u>97,874</u>	<u>-</u>	<u>1,388,194</u>
Subtotal	6,474,413	1,045,874	-0-	7,520,287
Less accumulated depreciation for:				
Buildings and improvements	(1,664,140)	(61,800)	-	(1,725,940)
Infrastructure	(107,533)	(80,433)	-	(187,966)
Equipment and furniture	(370,854)	(52,088)	-	(422,942)
Vehicles	<u>(762,516)</u>	<u>(113,161)</u>	<u>-</u>	<u>(875,677)</u>
Subtotal	<u>(2,905,043)</u>	<u>(307,482)</u>	<u>-0-</u>	<u>(3,212,525)</u>
Net capital assets being depreciated	<u>3,569,370</u>	<u>738,392</u>	<u>-0-</u>	<u>4,307,762</u>
Capital assets, net	<u>\$ 3,914,974</u>	<u>\$ 783,694</u>	<u>\$ -0-</u>	<u>\$ 4,698,668</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	\$ 144,693
Public safety	5,494
Public works	104,695
Health and welfare	46,000
Community and economic development	4,800
Recreation and cultural	<u>1,800</u>

Total depreciation expense \$ 307,482

	Restated Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Business-type activities				
Capital assets not being depreciated				
Land	\$ 93,700	\$ -	\$ -	\$ 93,700
Capital assets being depreciated				
Buildings and improvements	9,740,075	-	-	9,740,075
Equipment	907,486	3,690	(27,723)	883,453
Water system	4,148,654	14,146	-	4,162,800
Sewer system	1,339,683	-	-	1,339,683
Vehicles	<u>501,758</u>	<u>12,931</u>	<u>-</u>	<u>514,689</u>
Subtotal	16,637,656	30,767	(27,723)	16,640,700
Less accumulated depreciation for:				
Buildings and improvements	(3,341,403)	(270,857)	-	(3,612,260)
Equipment	(694,520)	(50,080)	27,723	(716,877)
Water system	(1,682,106)	(84,563)	-	(1,766,669)
Sewer system	(489,663)	(20,843)	-	(510,506)
Vehicles	<u>(308,958)</u>	<u>(46,776)</u>	<u>-</u>	<u>(355,734)</u>
Subtotal	<u>(6,516,650)</u>	<u>(473,119)</u>	<u>27,723</u>	<u>(6,962,046)</u>
Net capital assets being depreciated	<u>10,121,006</u>	<u>(442,352)</u>	<u>-0-</u>	<u>9,678,654</u>
Capital assets, net	<u>\$10,214,706</u>	<u>\$(442,352)</u>	<u>\$ -0-</u>	<u>\$ 9,772,354</u>
Component Units				
Component unit - EDC				
Capital assets not being depreciated:				
Land	\$ 41,655	\$ -	\$ -	\$ 41,655
Capital assets being depreciated				
Buildings	20,000	-	-	20,000
Less accumulated depreciation for				
Buildings	<u>(1,600)</u>	<u>(800)</u>	<u>-</u>	<u>(2,400)</u>
Net capital assets being depreciated	<u>18,400</u>	<u>(800)</u>	<u>-0-</u>	<u>17,600</u>
Capital assets, net	<u>\$ 60,055</u>	<u>\$(800)</u>	<u>\$ -0-</u>	<u>\$ 59,255</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE G: CAPITAL ASSETS - CONTINUED

	Restated Balance Jan. 1, 2004	Additions	Deletions	Balance Dec. 31, 2004
Component Units - continued				
Component unit - TIFA				
Capital assets not being depreciated:				
Land	\$ 160,000	\$ -	\$ -	\$ 160,000
Capital assets being depreciated				
Buildings	45,000	-	-	45,000
Less accumulated depreciation for				
Buildings	(16,200)	(1,800)	-	(18,000)
Net capital assets being depreciated	28,800	(1,800)	-0-	27,000
Capital assets, net	\$ 188,800	\$ (1,800)	\$ -0-	\$ 187,000

NOTE H: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended December 31, 2004.

	Restated Balance Jan. 1, 2004	Additions	Reductions	Balance Dec. 31, 2004	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Governmental activities					
Building Authority Bonds	\$ 150,000	\$ -	\$ 150,000	\$ -0-	\$ -
Transportation Bonds	60,000	-	20,000	40,000	20,000
1997 General Obligation Bonds	1,370,000	-	65,000	1,305,000	70,000
Installment purchase agreement	350,000	225,000	30,000	545,000	73,521
EPA liability	80,000	-	80,000	-0-	-
EPA landfill liability	180,419	-	11,540	168,879	10,585
CDBG loan	75,378	-	15,869	59,509	15,869
Building Authority loan	96,136	-	5,700	90,436	5,994
Accumulated compensated absences	101,271	384,875	-	486,146	183,464
	2,463,204	609,875	378,109	2,694,970	379,433
Business-type activities					
Revenue Bonds	1,520,000	-	75,000	1,445,000	75,000
Capital lease	68,704	-	28,276	40,428	30,017
Accumulated compensated absences	48,906	153,640	-	202,546	58,888
	1,637,610	153,640	103,276	1,687,974	163,905
TOTAL PRIMARY GOVERNMENT	4,100,814	763,515	481,385	4,382,944	543,338
COMPONENT UNITS					
Economic Development Corporation					
Land contract	54,130	-	2,547	51,583	2,732

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

	Restated Balance Jan. 1, 2004	Additions	Reductions	Balance Dec. 31, 2004	Amounts Due Within One Year
COMPONENT UNITS - CONTINUED					
Downtown Development Authority Revenue Bonds	\$ 290,000	\$ -	\$ 50,000	\$ 240,000	\$ 60,000
Tax Increment Finance Authority CDBG loan	<u>108,472</u>	<u>-</u>	<u>22,836</u>	<u>85,636</u>	<u>22,836</u>
TOTAL COMPONENT UNITS	<u>452,602</u>	<u>-0-</u>	<u>75,383</u>	<u>377,219</u>	<u>85,568</u>
TOTAL REPORTING ENTITY	<u>\$ 4,553,416</u>	<u>\$ 763,515</u>	<u>\$ 556,768</u>	<u>\$ 4,760,163</u>	<u>\$ 628,906</u>

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Unlimited Tax Bonds Payable

\$1,700,000 General Obligation Unlimited Tax Bonds Series 1997 dated June 1, 1997, due in annual installments ranging from \$70,000 to \$140,000 through October 1, 2017, with interest ranging from 4.85 to 5.25 percent, payable semi-annually. \$ 1,305,000

Transportation Bonds

\$150,000 Michigan Transportation Fund Bonds dated June 1, 1996, due in annual installments of \$20,000 through October 1, 2006, with interest ranging from 5.55 to 5.60 percent, payable semi-annually. \$ 40,000

Revenue Bonds

\$90,000 Revenue Bonds dated June 1, 1996, due in annual installments of \$15,000 through October 1, 2005, with interest at 5.75 percent, payable semi-annually. \$ 15,000

\$1,800,000 Revenue Bonds dated June 1, 1997, due in annual installments ranging from \$60,000 to \$155,000 through October 1, 2017, with interest ranging from 5.2 to 5.25 percent, payable semi-annually. 1,430,000
\$ 1,445,000

Capital Lease

The City has entered into a lease purchase agreement to finance the acquisition of a vector truck. The lease agreement qualifies as a capital lease for accounting purposes (title transfers at end of lease term at bargain price) and, therefore, has been recorded at the present value of future minimum lease payments as of the date of inception. The cost of equipment acquired under the lease purchase agreement amounted to \$136,344. The lease is due in monthly installments ranging from \$2,433 to \$2,622 through April 1, 2006, with interest at 5.99 percent, payable monthly. \$ 40,428

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

EPA Liability

The City is liable for half the operations and maintenance costs for the landfill cleanup, with annual installments ranging from \$2,202 to \$10,780 through 2028.

\$ 168,879

Installment Purchase Agreements

\$400,000 Installment purchase agreement (fire truck) dated September 7, 2001, due in annual installments ranging from \$30,000 to \$60,000 through April 1, 2011, with interest at 4.40 percent, payable semi-annually.

\$ 320,000

\$225,000 Installment purchase agreement (computers) dated June 14, 2004, due in annual installments ranging from \$43,521 to \$46,503 through September 1, 2009, with interest at 3.34 percent, payable semi-annually.

225,000

\$ 545,000

Building Authority Loan

\$110,000 Installment purchase agreement (EDC/DDA Building) dated February 1, 2001, due in monthly installments ranging from \$489 to \$47,733 through January 1, 2011, with interest at 5.5 percent, payable monthly.

\$ 90,436

Accrued Compensated Absences

Individual employees have vested rights upon termination of employment to receive payments for unused sick and vacation. The dollar amounts of these vested rights include related payroll taxes which have been accrued on the government-wide financial statements. The total liability amounted to approximately \$688,692 at December 31, 2004. Of this amount, \$483,285, \$202,546, and \$2,861 are shown as accrued liabilities within the General Governmental, Enterprise, and Internal Service Funds, respectively, in accordance with criteria disclosed in Note A.

COMPONENT UNITS - DISCRETELY PRESENTED

Revenue Bonds

\$500,000 DDA Streetscape Revenue Bonds dated November 1, 1998, due in annual installments of \$60,000 through April 1, 2008, with interest ranging from 5.90 to 6.15 percent, payable semi-annually.

\$ 240,000

Land Contract

\$70,000 Land Contract dated April 1, 2002, due in monthly installments of \$521, including interest at 7.0 percent, through April 1, 2017.

\$ 51,583

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

COMPONENT UNITS - DISCRETELY PRESENTED - CONTINUED

CDBG Loan

\$193,526 2003 CDBG Loan received by the City from the State for industrial park improvements. The City will be required to make quarterly payments of \$9,676 through November 1, 2008.

Since the land purchase benefited both the TIFA district and the City as a whole, the loan proceeds were recorded in both the Tax Increment Finance Authority Fund and the Major Street Fund.

The outstanding balances as of December 31, 2004, were as follows:

Major Street Fund	\$ 59,509
Tax Increment Finance Authority Fund	<u>85,636</u>
	<u>\$ 145,145</u>

The annual requirements to pay the debt principal and interest outstanding for the Bonds, Notes, and other obligations are as follows:

Primary Government

Year Ending December 31,	<u>Revenue Bonds</u>		<u>General Obligation Unlimited Tax Bonds</u>		<u>Loans Payable</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 75,000	\$ 151,136	\$ 70,000	\$ 67,558	\$ 44,699	\$ 4,764
2006	80,000	143,170	75,000	64,162	45,066	4,425
2007	85,000	134,850	80,000	60,450	45,425	4,066
2008	90,000	126,010	80,000	56,450	36,129	3,687
2009	95,000	116,650	85,000	52,370	7,499	3,286
2010-2014	580,000	419,330	520,000	188,693	56,763	3,082
2015-2017	<u>440,000</u>	<u>93,976</u>	<u>395,000</u>	<u>42,262</u>	<u>-</u>	<u>-</u>
	<u>\$1,445,000</u>	<u>\$1,185,122</u>	<u>\$1,305,000</u>	<u>\$ 531,945</u>	<u>\$ 235,581</u>	<u>\$ 23,310</u>

Year Ending December 31,	<u>Transportation Fund Bonds</u>		<u>Installment Purchase Agreement</u>		<u>Capital Lease</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 20,000	\$ 4,460	\$ 73,521	\$ 22,229	\$ 30,017	\$ 1,606
2006	20,000	2,240	84,249	17,941	10,411	130
2007	-	-	84,988	14,703	-	-
2008	-	-	95,739	11,221	-	-
2009	-	-	96,503	7,493	-	-
2010-2014	-	-	110,000	5,060	-	-
2015-2017	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 40,000</u>	<u>\$ 6,700</u>	<u>\$ 545,000</u>	<u>\$ 78,647</u>	<u>\$ 40,428</u>	<u>\$ 1,736</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE H: LONG-TERM DEBT - CONTINUED

Component Units

<u>Year Ending December 31,</u>	<u>General Obligation Bonds</u>		<u>Land Contract</u>	
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>
2005	\$ 60,000	\$ 28,920	\$ 2,732	\$ 3,524
2006	60,000	21,840	2,929	3,327
2007	60,000	14,640	3,141	3,115
2008	60,000	7,380	3,368	2,888
2009	-	-	3,611	2,645
2010-2014	-	-	22,370	8,908
2015-2017	-	-	13,432	1,186
	<u>\$ 240,000</u>	<u>\$ 72,780</u>	<u>\$ 51,583</u>	<u>\$ 25,573</u>

NOTE I: RETIREMENT PLAN

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY)

Plan Description

The City participates in the Michigan Municipal Employees Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees (other than public safety employees) of the City. The City also participates in the MERS defined contribution plan. That plan is administered by the ICMA. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended December 31, 2004, the City did not contribute to the plan because their actuarial accrued liability was overfunded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual contributions to the retirement system are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return; (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0% to 4.2% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty (30) years.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: RETIREMENT PLAN - CONTINUED

PRIMARY GOVERNMENT (EXCEPT PUBLIC SAFETY) - CONTINUED

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$14,560,625	\$14,212,374	\$14,437,515
Actuarial accrued liability (AAL) (entry age)	10,026,117	10,572,878	10,905,830
Unfunded (overfunded) AAL	(4,534,508)	(3,639,496)	(3,531,685)
Funded ratio	145 %	134 %	132 %
Covered payroll	1,794,677	1,740,941	1,737,531
UAAL as a percentage of covered payroll	253 %	209 %	203 %

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

PUBLIC SAFETY

Plan Description

The City participates in the Public Safety Officers' Pension Fund, a single-employer defined benefit pension plan that covers all eligible full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Public Safety Officers' Pension Fund does not issue a publicly available financial report.

Funding Policy

The obligation to contribute to and maintain the system for these employees was established by the City Council and by negotiation with the City's collective bargaining units. The plan requires a 4% contribution from the employees.

Annual Pension Cost

For year ended December 31, 2004, the City did not contribute to the plan because their actuarial accrued liability was over funded. The annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual contributions to the retirement system are based on a level percent of payroll. Significant actuarial assumptions used include (a) a 6.00 percent investment rate of return; (b) projected salary increases of 4.0 percent per year compounded annually, attributable to inflation; and (c) additional salary increases ranging from 0.2% to 4.0% per year depending on age, seniority, and merit.

The actuarial value of assets was determined using techniques that smooth the effects of short term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a remaining period of seventeen (17) years.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE I: RETIREMENT PLAN - CONTINUED

PUBLIC SAFETY - CONTINUED

Three (3) Year Trend Information

	Year Ended December 31,		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
Actuarial value of assets	\$13,794,507	\$13,944,641	\$13,967,120
Actuarial accrued liability (AAL) (entry age)	8,114,733	8,287,080	8,805,582
Unfunded (overfunded) AAL	(5,679,774)	(5,657,561)	(5,161,538)
Funded ratio	170 %	168 %	159%
Covered payroll	1,399,732	1,198,774	1,351,980
UAAL as a percentage of covered payroll	406 %	472 %	382%

	Year Ended December 31,		
	<u>2002</u>	<u>2003</u>	<u>2004</u>
Annual pension cost	\$ -0-	\$ -0-	\$ -0-
Percentage of APC contributed	N/A	N/A	N/A
Net pension obligation	-	-	-

This trend information was obtained from the most recently issued actuarial reports.

NOTE J: RISK MANAGEMENT

The City participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

The City also participates in a State pool, the Michigan Municipal League, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE K: FUND EQUITY RESERVES

Reserved fund balance is used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balance reserves as of December 31, 2004:

Fund Balances

Primary Government
General Fund

Reserved for prepaids	\$ 77,157
Reserved for park fence	16,375
Reserved for public safety	<u>8,443</u>

101,975

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE K: FUND EQUITY RESERVES - CONTINUED

Primary Government - continued	
Albion Building Authority	
Reserved for prepaids	\$ 1,368
Senior Citizen Facility	
Reserved for prepaids	40,000
Nonmajor Special Revenue Funds	
Major Street	
Reserved for prepaids	4,910
Reserved for inventories	5,815
Local Street	
Reserved for prepaids	4,675
Library	
Reserved for prepaids	390
Reserved for library activities	<u>168,934</u>
	184,724
Nonmajor Debt Service Funds	
Reserved for debt service	72,341
Permanent Funds	
Library Trust Fund	
Reserved for library trust	991,361
Cemetery Perpetual Care	
Reserved for perpetual care	<u>366,531</u>
	<u>1,357,892</u>
Total primary government	<u>\$ 1,758,300</u>
Fiduciary Fund	
Private Purpose Trust	
Held in Trust for Private Purposes	<u>\$14,499,990</u>

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the Government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of December 31, 2004:

PRIMARY GOVERNMENT	
Governmental Activities	
Debt Service	<u>\$ 72,341</u>
Other Purposes	
Streets and highways	<u>\$ 212,859</u>

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE M: PRIOR PERIOD ADJUSTMENTS

The following prior period adjustments were made during the year, which were the result of corrections of accounting errors. These adjustments were reported as changes to beginning fund balance or net assets. The effect on operations and other affected balances for the current and prior year are as follows:

	December 31,		
	<u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT			
Governmental Funds			
General Fund			
Prepaid expenditures	\$ -	\$(95,414)	To correct overstated
Revenues over (under) expenditures	-	(95,414)	prepaid expenditures
Fund balance - beginning	(95,414)	-	
Due from other funds	-	(64,661)	To correct overstated
Revenues over (under) expenditures	-	(64,661)	due from other funds
Fund balance - beginning	(64,661)	-	
Cash	-	83,643	To correct understated
Revenues over (under) expenditures	-	83,643	cash
Fund balance - beginning	83,643	-	
Community Development Block Grant Fund			
Interest receivable	-	87,291	To correct understated
Revenues over (under) expenditures	-	87,291	interest receivable
Fund balance - beginning	87,291	-	
Deferred revenue	-	(301,270)	To correct overstated
Revenues over (under) expenditures	-	301,270	deferred revenue
Fund balance - beginning	301,270	-	
Revolving Loan Fund			
Deferred revenue	-	(186,416)	To correct overstated
Revenues over (under) expenditures	-	186,416	deferred revenue
Fund balance - beginning	186,416	-	
Albion Trust Fund			
Due to other funds	-	(110,000)	To correct overstated
Revenues over (under) expenditures	-	110,000	due to other funds
Fund balance - beginning	110,000	-	
Major Street Fund			
Prepaid expenditures	-	(4,176)	To correct overstated
Revenues over (under) expenditures	-	(4,176)	prepaid expenditures
Fund balance - beginning	(4,176)	-	
Drug Law Enforcement Fund			
Accrued liabilities	-	2,550	To correct understated
Revenues over (under) expenditures	-	(2,550)	accrued liabilities
Fund balance - beginning	(2,550)	-	
Albion Building Authority Fund			
Prepaid expenditures	-	(1,966)	To correct overstated
Revenues over (under) expenditures	-	(1,966)	prepaid expenditures
Fund balance - beginning	(1,966)	-	

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE M: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	December 31,		<u>Description</u>
	<u>2004</u>	<u>2003</u>	
PRIMARY GOVERNMENT - CONTINUED			
Governmental Funds - continued			
Albion Building Authority Bonds Fund			
Due from other funds	\$ -	\$(110,000)	To correct overstated
Revenues over (under) expenditures	-	(110,000)	due from other funds
Fund balance - beginning	(110,000)	-	
Library Fund			
Prepaid expenditures	-	(514)	To correct overstated
Revenues over (under) expenditures	-	(514)	prepaid expenditures
Fund balance - beginning	(514)	-	
Internal Service Funds			
Equipment Pool Fund			
Capital Assets, net	-	1,549	To correct understated
Change in net assets	-	1,549	capital assets, net of
Net assets - beginning	1,549	-	accumulated depreciation
Compensated absences	-	2,861	To correct understated
Change in net assets	-	(2,861)	compensated absences
Net assets - beginning	(2,861)	-	
Prepaid expenses	-	777	To correct understated
Change in net assets	-	777	prepaid expenses
Net assets - beginning	777	-	
Business-type Activities			
Sewer Fund			
Depreciation expense	-	(136,125)	To correct overstated
Change in net assets	-	136,125	depreciation expense
Net assets - beginning	136,125	-	
Compensated absences	-	90,686	To correct understated
Change in net assets	-	(90,686)	compensated absences
Net assets - beginning	(90,686)	-	
Notes payable	-	2,716	To correct understated
Change in net assets	-	(2,716)	notes payable
Net assets - beginning	(2,716)	-	
Prepaid expenses	-	(14,092)	To correct overstated
Change in net assets	-	(14,092)	prepaid expenses
Net assets - beginning	(14,092)	-	
Capital assets, net	-	128,151	To correct understated
Change in net assets	-	128,151	capital assets, net of
Net assets - beginning	128,151	-	accumulated depreciation

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE M: PRIOR PERIOD ADJUSTMENTS - CONTINUED

	December 31, <u>2004</u>	<u>2003</u>	<u>Description</u>
PRIMARY GOVERNMENT - CONTINUED			
Business-type Activities - continued			
Water Fund			
Depreciation expense	\$ -	\$(24,539)	To correct overstated depreciation expense
Change in net assets	-	24,539	
Net assets - beginning	24,539	-	
Compensated absences	-	62,955	To correct understated compensated absences
Change in net assets	-	(62,955)	
Net assets - beginning	(62,955)	-	
Notes payable	-	(45,000)	To correct overstated notes payable
Change in net assets	-	45,000	
Net assets - beginning	45,000	-	
Prepaid expenses	-	(8,769)	To correct overstated prepaid expenses
Change in net assets	-	(8,769)	
Net assets - beginning	(8,769)	-	
Capital assets, net	-	123,294	To correct understated capital assets, net of accumulated depreciation
Change in net assets	-	123,294	
Net assets - beginning	123,294	-	
FIDUCIARY FUNDS			
Private Purpose Trust Funds			
Public Safety Officers' Pension Fund			
Investments	-	96,665	To correct understated change in market value
Change in net assets	-	96,665	
Net assets - beginning	96,665	-	
COMPONENT UNIT FUNDS			
Downtown Development Authority			
Prepaid expenditures	-	(291)	To correct overstated prepaid expenditures
Revenues over (under) expenditures	-	(291)	
Fund balance - beginning	(291)	-	
Tax Increment Finance Authority			
Prepaid expenditures	-	(2,357)	To correct overstated prepaid expenditures
Revenues over (under) expenditures	-	(2,357)	
Fund balance - beginning	(2,357)	-	
Economic Development Corporation			
Prepaid expenditures	-	(7,156)	To correct overstated prepaid expenditures
Revenues over (under) expenditures	-	(7,156)	
Fund balance - beginning	(7,156)	-	

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE N: POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to providing pension benefits, the City provides certain health care benefits to all full-time employees upon retirement in accordance with labor contracts. Substantially all of the City's employees may become eligible for these benefits if they reach the normal retirement age of 55 with at least 25 years of credited service while working for the City. These benefits are provided until age 65, at which time the individuals are eligible for Medicare coverage.

The cost of retiree health care benefits is recognized as an expenditure as insurance premiums are paid. For the year ended December 31, 2004, those costs for employees that retired from departments other than public safety totaled \$15,000. The benefits for public safety retirees are paid through the City of Albion Public Safety Officers' Retirement System.

The Governmental Accounting Standards Board has recently released Statement No. 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the new employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ended December 31, 2009.

NOTE O: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated.

In the body of the required supplementary information, the City's budgeted expenditures in the General and major Special Revenue Funds have been shown at the functional classification level. The approved budgets of the City have been adopted at the activity level for the General Fund and the total expenditure level for the Special Revenue Funds.

During the year ended December 31, 2004, the City incurred expenditures in the General Fund in excess of the amount appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Recreation and cultural			
Parks and recreation	\$ 331,091	\$ 331,307	\$ 216
Other			
Other	222,891	236,386	13,495
Transfers out	226,000	270,740	44,740
Albion Trust Fund			
General government	-	151	151
Transfers out	-	110,000	110,000

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE P: CONTINGENCIES

The Environmental Protection Agency (EPA) has identified the City as one of the potentially responsible parties for the contamination of a landfill used by the City and has named the City in an action filed in 1997 seeking to recover the EPA's past service costs and oversight costs. The parties negotiated settlement calling for the City to make certain settlement payments and conduct operations and maintenance work jointly with another party. On July 1, 2004, the City made its final installment payment to the EPA. The land operation and maintenance work continues at the site. The Michigan Department of Environmental Quality (MDEQ) is also seeking to recover response costs in a related but separate claim filed in March 1999. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In November 1997, the MDEQ also notified the City that another property within the City had been identified as a site of alleged environmental contamination and that the City is the alleged responsible owner of this site. There have been no recent communications to the City or judicial enforcement of this claim against the City by MDEQ. Sufficient information is not available at this time for the City's legal counsel to form a judgment with respect to the merits, if any, of this claim or the amount or likelihood of potential loss to the City which might result from this claim.

In addition, the City has informed the Michigan Department of Natural Resources (now known as MDEQ) of two (2) leaking underground storage tanks that were in the City's possession. The City has removed the underground storage tanks and taken action to limit further contamination caused by the underground storage tanks. Semi-Annual Groundwater Monitoring Reports are submitted to the MDEQ and a Closure Request is currently pending before the MDEQ for one (1) of the sites. Sufficient information is not available at this time to determine the amount of potential losses, if any, to the City which might result from these matters.

The City has two (2) taxpayers that have appealed the assessed value of their personal property. The assessments were based on State Tax Commission formulas and involve determining depreciation schedules for personal property. Both cases have been lost and the City is currently negotiating settlement with the taxpayers.

A charitable tax exempt organization purchased property located in the City from another organization that was in bankruptcy. The property was placed on the tax rolls during 2004. The current owner of the property has appealed to the Michigan Tax Tribunal claiming the property remains exempt from tax and also contested the assessed value. Settlement is likely as a sale of the property is pending; however the amount of the settlement cannot be determined at this time.

A local industry has filed bankruptcy and the City is attempting to collect unpaid property taxes and utility bills. Some of the unpaid property taxes have been collected through the efforts of a bankruptcy specialist hired by the City. The local industry sought to reduce its outstanding personal property taxes, a refund of prior years' personal property taxes paid, and to terminate a lease of a park with the City. The City vigorously and successfully defended this matter and obtained a settlement favorable to the City, which is being paid to the City over a period of approximately eighteen months. However, the City has a contingent liability for the repayment of prior years' delinquent real taxes that have been paid by Calhoun County. The amount of this contingent liability is unknown at this time.

There are various other legal actions pending against the City. Due to the inconclusive nature of many of the actions, it is not possible for legal counsel to determine the probable outcome or a reasonable estimate of the City's potential liability, if any. Those various other legal actions for which a reasonable estimate can be determined of the City's potential liability and that would not be covered by insurance and reserves, if any, are considered by City management and legal counsel to be immaterial.

City of Albion

NOTES TO FINANCIAL STATEMENTS

December 31, 2004

NOTE Q: CONSTRUCTION CODE FEES

The City oversees building construction, in accordance with the State's construction code act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. Beginning January 1, 2000, the law requires that collection of these fees be used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000, is as follows:

Deficit at December 31, 2003	\$(58,841)
Construction code revenue	3,813
Related expenses - Direct costs	<u>(68,703)</u>
Deficit at December 31, 2004	<u>\$(123,731)</u>

REQUIRED SUPPLEMENTARY INFORMATION

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
REVENUES				
Taxes				
Property taxes	\$ 1,388,000	\$ 1,440,504	\$ 1,467,492	\$ 26,988
Income taxes	1,100,000	1,100,000	1,080,865	(19,135)
Payments in lieu of taxes	9,800	9,800	6,723	(3,077)
Penalties and interest	12,000	12,000	28,650	16,650
Administration fees	-	-	44,337	44,337
Total taxes	2,509,800	2,562,304	2,628,067	65,763
Licenses and permits	57,300	57,300	54,658	(2,642)
Intergovernmental				
Federal/State	1,391,729	1,425,715	1,396,165	(29,550)
Local	10,471	10,471	60,566	50,095
Total intergovernmental	1,402,200	1,436,186	1,456,731	20,545
Charges for services				
USDA food program	29,500	29,500	30,717	1,217
Cemetery	33,000	33,000	49,653	16,653
Parks and recreation	10,300	10,300	6,993	(3,307)
Other fees	194,882	194,882	209,916	15,034
Total charges for services	267,682	267,682	297,279	29,597
Fines and forfeits	27,000	27,000	72,225	45,225
Interest and rents	15,600	15,600	13,736	(1,864)
Other				
Contributions	-	-	14,880	14,880
Reimbursements	53,897	53,897	83,814	29,917
Other	14,000	14,000	73,072	59,072
Total other	67,897	67,897	171,766	103,869
TOTAL REVENUES	4,347,479	4,433,969	4,694,462	260,493

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
EXPENDITURES				
General government				
City Council	\$ 38,410	\$ 38,410	\$ 26,649	\$ 11,761
City Manager	103,608	103,608	102,082	1,526
Human resources	48,299	48,299	32,663	15,636
Assessor	83,212	83,212	76,669	6,543
Attorney	70,340	70,340	68,866	1,474
Clerk/treasurer	327,125	327,125	289,936	37,189
Planning	80,660	80,660	67,406	13,254
Municipal building	109,021	109,021	82,421	26,600
Cemetery	143,131	143,131	116,234	26,897
Other	69,358	69,358	33,834	35,524
Total general government	1,073,164	1,073,164	896,760	176,404
Public safety				
Police and fire	2,176,869	2,238,359	2,215,746	22,613
Code enforcement	72,387	72,387	68,703	3,684
Total public safety	2,249,256	2,310,746	2,284,449	26,297
Public works				
Engineering	36,702	36,702	29,370	7,332
Highways and streets	187,004	187,004	168,748	18,256
Tree trimming	10,000	10,000	2,338	7,662
Total public works	233,706	233,706	200,456	33,250
Health and welfare				
Environmental expenditures	98,000	98,000	87,603	10,397
USDA food program	30,371	30,371	23,531	6,840
Total health and welfare	128,371	128,371	111,134	17,237
Community and economic development	15,000	15,000	15,000	-0-
Recreation and cultural				
Parks and recreation	249,091	331,091	331,307	(216)
Other	172,891	222,891	236,386	(13,495)
TOTAL EXPENDITURES	4,121,479	4,314,969	4,075,492	239,477
EXCESS OF REVENUES OVER EXPENDITURES	226,000	119,000	618,970	499,970

City of Albion

General Fund

BUDGETARY COMPARISON SCHEDULE - CONTINUED

Year Ended December 31, 2004

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
OTHER FINANCING SOURCES (USES)				
Transfers in	\$ -	\$ 107,000	\$ 110,000	\$ 3,000
Transfers out	(226,000)	(226,000)	(270,740)	(44,740)
TOTAL OTHER FINANCING SOURCES (USES)	(226,000)	(119,000)	(160,740)	(41,740)
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	458,230	458,230
Fund balance, beginning of year	29,879	29,879	29,879	-0-
Prior period adjustments	-	-	(76,432)	(76,432)
Fund balance, end of year	<u>\$ 29,879</u>	<u>\$ 29,879</u>	<u>\$ 411,677</u>	<u>\$ 381,798</u>

City of Albion
Community Development Block Grant Fund
BUDGETARY COMPARISON SCHEDULE
Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Charge for services	\$ -	\$ -	\$ 31,780	\$ 31,780
Interest and rents	<u>2,300</u>	<u>2,300</u>	<u>3,750</u>	<u>1,450</u>
TOTAL REVENUES	2,300	2,300	35,530	33,230
EXPENDITURES	<u>-</u>	<u>-</u>	<u>-</u>	<u>-0-</u>
EXCESS OF REVENUES OVER EXPENDITURES	2,300	2,300	35,530	33,230
Fund balance, beginning of year	-	-	-	-0-
Prior period adjustments	<u>-</u>	<u>-</u>	<u>388,561</u>	<u>388,561</u>
Fund balance, end of year	<u>\$ 2,300</u>	<u>\$ 2,300</u>	<u>\$ 424,091</u>	<u>\$ 421,791</u>

City of Albion

Albion Building Authority Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	Budgeted Amounts			Variance with Final Budget Positive (Negative)
	Original	Final	Actual	
REVENUES				
Intergovernmental	\$ 250,000	\$ 250,000	\$ 258,486	\$ 8,486
Interest and rents	-	-	225,662	225,662
Other	217,700	288,700	114,577	(174,123)
TOTAL REVENUES	467,700	538,700	598,725	60,025
EXPENDITURES				
Community and economic development	315,220	366,220	353,075	13,145
EXCESS OF REVENUES OVER EXPENDITURES	152,480	172,480	245,650	73,170
OTHER FINANCING USES				
Transfers out	(168,536)	(168,536)	(157,250)	11,286
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(16,056)	3,944	88,400	84,456
Fund balance, beginning of year	65,571	65,571	65,571	-0-
Prior period adjustment	-	-	(1,966)	(1,966)
Fund balance, end of year	\$ 49,515	\$ 69,515	\$ 152,005	\$ 82,490

City of Albion

Revolving Loan Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ 11,000	\$ 11,000	\$ 12,332	\$ 1,332
EXPENDITURES				
Community and economic development	<u>6,508</u>	<u>6,508</u>	<u>400</u>	<u>6,108</u>
EXCESS OF REVENUES OVER EXPENDITURES	4,492	4,492	11,932	7,440
OTHER FINANCING USES				
Transfers out	<u>(4,492)</u>	<u>(4,492)</u>	<u>-</u>	<u>4,492</u>
EXCESS OF REVENUES OVER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	11,932	11,932
Fund balance, beginning of year	183,405	183,405	183,405	-0-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>186,416</u>	<u>186,416</u>
Fund balance, end of year	<u>\$ 183,405</u>	<u>\$ 183,405</u>	<u>\$ 381,753</u>	<u>\$ 198,348</u>

City of Albion

Albion Trust Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended December 31, 2004

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
REVENUES				
Interest	\$ -	\$ -	\$ 23,290	\$ 23,290
EXPENDITURES				
General government	<u>-</u>	<u>-</u>	<u>151</u>	<u>(151)</u>
EXCESS OF REVENUES OVER EXPENDITURES	-0-	-0-	23,139	23,139
OTHER FINANCING USES				
Transfers out	<u>-</u>	<u>-</u>	<u>(110,000)</u>	<u>(110,000)</u>
EXCESS OF REVENUES UNDER EXPENDITURES AND OTHER FINANCING USES	-0-	-0-	(86,861)	(86,861)
Fund balance, beginning of year	1,217,528	1,217,528	1,217,528	-0-
Prior period adjustment	<u>-</u>	<u>-</u>	<u>110,000</u>	<u>110,000</u>
Fund balance, end of year	<u>\$ 1,217,528</u>	<u>\$ 1,217,528</u>	<u>\$ 1,240,667</u>	<u>\$ 23,139</u>

OTHER SUPPLEMENTARY INFORMATION

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

December 31, 2004

	Special Revenue		
	Major Street	Local Street	Solid Waste
ASSETS			
Cash and cash equivalents	\$ 68,386	\$ 44,853	\$ 178,792
Accounts receivable	-	-	1,155
Taxes receivable	-	-	18,490
Inventories	5,815	-	-
Prepays	4,910	4,675	-
Due from other governmental units	78,898	24,962	-
Due from other funds	-	-	-
TOTAL ASSETS	\$ 158,009	\$ 74,490	\$ 198,437
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,022	\$ 234	\$ 13
Accrued liabilities	51	-	-
Accrued wages	7,600	4,058	830
Deferred revenue	-	-	23,720
Due to other governmental units	-	-	-
TOTAL LIABILITIES	10,673	4,292	24,563
FUND BALANCES			
Reserved for			
Inventories	5,815	-	-
Prepays	4,910	4,675	-
Library	-	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved - undesignated	136,611	65,523	173,874
TOTAL FUND BALANCES	147,336	65,523	173,874
TOTAL LIABILITIES AND FUND BALANCES	\$ 158,009	\$ 69,815	\$ 198,437

Funds		Debt Service Funds			
Drug Law Enforcement	Library	Michigan Transportation Bond	G.O. Water Bonds	ABA Bonds	Fire Truck Loan
\$ 18,256	\$ 179,411	\$ 38,406	\$ 12,612	\$ (134,265)	\$ -
-	-	-	-	-	-
-	-	-	14,875	-	-
-	-	-	-	-	-
-	390	-	-	-	-
-	-	-	-	-	-
-	-	-	-	157,250	-
<u>\$ 18,256</u>	<u>\$ 179,801</u>	<u>\$ 38,406</u>	<u>\$ 27,487</u>	<u>\$ 22,985</u>	<u>\$ -0-</u>
\$ -	\$ 4,039	\$ -	\$ -	\$ -	\$ -
4,342	-	-	-	-	-
-	6,433	-	-	-	-
-	-	-	16,243	-	-
-	5	-	294	-	-
<u>4,342</u>	<u>10,477</u>	<u>-0-</u>	<u>16,537</u>	<u>-0-</u>	<u>-0-</u>
-	-	-	-	-	-
-	390	-	-	-	-
-	168,934	-	-	-	-
-	-	-	-	-	-
-	-	38,406	10,950	22,985	-
13,914	-	-	-	-	-
<u>13,914</u>	<u>169,324</u>	<u>38,406</u>	<u>10,950</u>	<u>22,985</u>	<u>-0-</u>
<u>\$ 18,256</u>	<u>\$ 179,801</u>	<u>\$ 38,406</u>	<u>\$ 27,487</u>	<u>\$ 22,985</u>	<u>\$ -0-</u>

City of Albion

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

December 31, 2004

	Debt Service Funds	Capital Project Funds	
	EDC & DDA Building	Computer Information Systems	MDOT Street Reconstruction
ASSETS			
Cash and cash equivalents	\$ (899)	\$ 50,731	\$ (282,865)
Accounts receivable	899	-	-
Taxes receivable	-	-	-
Inventories	-	-	-
Prepays	-	-	-
Due from other governmental units	-	-	-
Due from other funds	-	-	285,000
TOTAL ASSETS	<u>\$ -0-</u>	<u>\$ 50,731</u>	<u>\$ 2,135</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ -	\$ -	\$ -
Accrued liabilities	-	-	-
Accrued wages	-	-	-
Deferred revenue	-	-	-
Due to other governmental units	-	-	-
TOTAL LIABILITIES	-0-	-0-	-0-
FUND BALANCES			
Reserved for			
Inventories	-	-	-
Prepays	-	-	-
Library	-	-	-
Perpetual care	-	-	-
Debt service	-	-	-
Unreserved - undesignated	-	50,731	2,135
TOTAL FUND BALANCES	<u>-0-</u>	<u>50,731</u>	<u>2,135</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ -0-</u>	<u>\$ 50,731</u>	<u>\$ 2,135</u>

Permanent Fund		Total Nonmajor Governmental Funds
Cemetery Trust		
\$ 366,906	\$	540,324
-		2,054
-		33,365
-		5,815
-		9,975
-		103,860
-		442,250
<u>\$ 366,906</u>	<u>\$</u>	<u>1,137,643</u>

\$ 375	\$	7,683
-		4,393
-		18,921
-		39,963
-		299
<u>375</u>		<u>71,259</u>

-		5,815
-		9,975
-		168,934
366,531		366,531
-		72,341
-		442,788
<u>366,531</u>		<u>1,066,384</u>
<u>\$ 366,906</u>	<u>\$</u>	<u>1,137,643</u>

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

Year Ended December 31, 2004

	Special Revenue		
	Major Street	Local Street	Solid Waste
REVENUES			
Taxes	\$ -	\$ -	\$ 210,432
Intergovernmental	481,602	165,939	-
Charges for services	-	69	-
Fines and forfeits	-	-	-
Interest and rents	-	-	-
Other	10,569	-	1,946
TOTAL REVENUES	492,171	166,008	212,378
EXPENDITURES			
General government	-	-	-
Public safety	-	-	-
Public works	306,922	216,808	145,441
Debt service			
Principal	15,869	-	-
Interest and fiscal fees	-	-	-
Capital outlay	-	-	-
TOTAL EXPENDITURES	322,791	216,808	145,441
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	169,380	(50,800)	66,937
OTHER FINANCING SOURCES (USES)			
Debt proceeds	-	-	-
Transfers in	-	63,702	-
Transfers out	(279,118)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	(279,118)	63,702	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(109,738)	12,902	66,937
Fund balances, beginning of year	261,250	57,296	106,937
Prior period adjustments	(4,176)	-	-
Fund balances, end of year	\$ 147,336	\$ 70,198	\$ 173,874

Funds		Debt Service Funds			
Drug Law Enforcement	Library	Michigan Transportation Bond	G.O. Water Bonds	ABA Bonds	Fire Truck Loan
\$ -	\$ 63,107	\$ -	\$ 144,646	\$ -	\$ -
-	31,649	-	-	-	-
-	71,478	-	-	-	-
-	45,039	-	-	-	-
-	2,874	-	-	-	-
13,753	20,344	-	-	-	-
13,753	234,491	-0-	144,646	-0-	-0-
-	446,967	-	-	-	-
3,151	-	-	-	-	-
-	-	-	-	-	-
-	-	20,000	65,000	150,000	30,000
-	-	3,620	70,945	7,200	14,740
-	-	-	-	-	-
3,151	446,967	23,620	135,945	157,200	44,740
10,602	(212,476)	(23,620)	8,701	(157,200)	(44,740)
-	-	-	-	-	-
-	243,193	62,026	-	157,250	44,740
-	-	-	-	-	-
-0-	243,193	62,026	-0-	157,250	44,740
10,602	30,717	38,406	8,701	50	-0-
5,862	139,121	-	2,249	132,935	-
(2,550)	(514)	-	-	(110,000)	-
\$ 13,914	\$ 169,324	\$ 38,406	\$ 10,950	\$ 22,985	\$ -0-

City of Albion

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - CONTINUED

Year Ended December 31, 2004

	Debt Service Funds	Capital Project Funds	
	EDC & DDA Building	Computer Information Systems	MDOT Street Reconstruction
REVENUES			
Taxes	\$ -	\$ -	\$ -
Intergovernmental	10,786	-	-
Charges for services	-	-	-
Fines and Forfeits	-	-	-
Interest and rents	-	324	-
Other	-	-	-
TOTAL REVENUES	10,786	324	-0-
EXPENDITURES			
General government	-	130,993	-
Public safety	-	-	-
Public works	-	-	113,839
Debt service			
Principal	5,700	-	-
Interest and fiscal fees	5,085	-	-
Capital outlay	-	43,600	-
TOTAL EXPENDITURES	10,785	174,593	113,839
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	1	(174,269)	(113,839)
OTHER FINANCING SOURCES (USES)			
Debt proceeds	-	225,000	-
Transfers in	-	-	516,905
Transfers out	-	-	-
TOTAL OTHER FINANCING SOURCES (USES)	-0-	225,000	516,905
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	1	50,731	403,066
Fund balances, beginning of year	(1)	-	(400,931)
Prior period adjustment	-	-	-
Fund balances, end of year	\$ -0-	\$ 50,731	\$ 2,135

Permanent Fund		Total Nonmajor Governmental Funds
Cemetery Trust		
\$ -	\$	418,185
-		689,976
2,950		74,497
-		45,039
328		3,526
-		46,612
3,278		1,277,835
-		577,960
-		3,151
-		783,010
-		286,569
-		101,590
-		43,600
-0-		1,795,880
3,278		(518,045)
-		225,000
-		1,087,816
-		(279,118)
-0-		1,033,698
3,278		515,653
363,253		667,971
-		(117,240)
<u>\$ 366,531</u>	<u>\$</u>	<u>1,066,384</u>

City of Albion

Agency Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2004

	<u>Trust and Agency</u>	<u>Current Tax Collections</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ 34,790	\$ 336,730	\$ 371,520
Taxes receivable	(42,129)	20,740	(21,389)
Other assets	<u>4,491</u>	<u>(2,940)</u>	<u>1,551</u>
TOTAL ASSETS	<u>\$ (2,848)</u>	<u>\$ 354,530</u>	<u>\$ 351,682</u>
LIABILITIES			
Due to State	\$ 22,743	\$ 25,640	\$ 48,383
Due to County	1,400	87,013	88,413
Due to Schools	<u>(26,991)</u>	<u>241,877</u>	<u>214,886</u>
TOTAL LIABILITIES	<u>\$ (2,848)</u>	<u>\$ 354,530</u>	<u>\$ 351,682</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF FIDUCIARY NET ASSETS

December 31, 2004

	Public Safety Officers' Pension	Retiree Health Care	Total
ASSETS			
Cash	\$ 559,470	\$ 59,503	\$ 618,973
Investments	13,794,874	-	13,794,874
Interest receivable	86,143	-	86,143
TOTAL ASSETS	<u>\$ 14,440,487</u>	<u>\$ 59,503</u>	<u>\$ 14,499,990</u>
NET ASSETS			
Held in trust for private purposes	<u>\$ 14,440,487</u>	<u>\$ 59,503</u>	<u>\$ 14,499,990</u>

City of Albion

Private Purpose Trust Funds

COMBINING STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS

Year Ended December 31, 2004

	Public Safety Officers' Pension	Retiree Health Care	Total
ADDITIONS			
Investment income			
Interest and dividends	\$ 482,908	\$ 19,148	\$ 502,056
Net increase in fair value of investments	446,231	-	446,231
Gain on sales of investments	442,033	-	442,033
Less investment expenses	(22,930)	-	(22,930)
Net investment income	1,348,242	19,148	1,367,390
Contributions			
Employer	57,945	-	57,945
TOTAL ADDITIONS	1,406,187	19,148	1,425,335
DEDUCTIONS			
Benefit payments	572,708	-	572,708
Administrative expenses	64,106	-	64,106
TOTAL DEDUCTIONS	636,814	-0-	636,814
CHANGE IN NET ASSETS	769,373	19,148	788,521
Net assets, beginning of year	13,574,449	40,355	13,614,804
Prior period adjustments	96,665	-	96,665
Net assets, end of year	\$ 14,440,487	\$ 59,503	\$ 14,499,990

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2004

	Economic Development	Business Incubator	Total
ASSETS			
Cash and cash equivalents	\$ (4,934)	\$ 6,440	\$ 1,506
Due from other governmental units	13,256	-	13,256
TOTAL ASSETS	\$ 8,322	\$ 6,440	\$ 14,762
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 3,103	\$ 2,389	\$ 5,492
Accrued liabilities	1,537	-	1,537
Accrued wages	871	-	871
Deferred revenue	768	-	768
TOTAL LIABILITIES	6,279	2,389	8,668
FUND BALANCES			
Undesignated	2,043	4,051	6,094
TOTAL LIABILITIES AND FUND BALANCES	\$ 8,322	\$ 6,440	\$ 14,762

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - ECONOMIC DEVELOPMENT CORPORATION

December 31, 2004

Total fund balances - governmental funds \$ 6,094

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 61,655	
Accumulated depreciation is	<u>(2,400)</u>	
Capital assets, net		59,255

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

General obligation bonds	<u>(51,583)</u>
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Net assets of governmental activities \$ 13,766

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2004

	<u>Economic Development</u>	<u>Business Incubator</u>	<u>Total</u>
REVENUES			
Charges for services	\$ -	\$ 5,377	\$ 5,377
Interest and rents	87,079	10,869	97,948
Other	<u>28,450</u>	<u>8,533</u>	<u>36,983</u>
TOTAL REVENUES	115,529	24,779	140,308
EXPENDITURES			
Current			
Community and economic development	<u>153,306</u>	<u>20,728</u>	<u>174,034</u>
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	(37,777)	4,051	(33,726)
Fund balances, beginning of year	46,976	-	46,976
Prior period adjustments	<u>(7,156)</u>	<u>-</u>	<u>(7,156)</u>
Fund balances, end of year	<u>\$ 2,043</u>	<u>\$ 4,051</u>	<u>\$ 6,094</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - ECONOMIC DEVELOPMENT CORPORATION

Year Ended December 31, 2004

Net change in fund balances - governmental funds **\$ (33,726)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense (800)

Change in net assets of governmental activities **\$ (34,526)**

City of Albion

Component Unit Funds

COMBINING BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2004

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
ASSETS			
Cash	\$ 38,248	\$ 2,850	\$ 41,098
Taxes receivable	42,400	-	42,400
Prepays	220	-	220
TOTAL ASSETS	<u>\$ 80,868</u>	<u>\$ 2,850</u>	<u>\$ 83,718</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 227	\$ -	\$ 227
Accrued wages	969	-	969
TOTAL LIABILITIES	1,196	-0-	1,196
FUND BALANCES			
Unreserved - undesignated	79,672	2,850	82,522
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 80,868</u>	<u>\$ 2,850</u>	<u>\$ 83,718</u>

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

December 31, 2004

Total fund balances - governmental funds \$ 82,522

Amounts reported for the governmental activities in the statement of net assets are different because:

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Accrued interest payable	7,230	
General obligation bonds	<u>240,000</u>	
		<u>(247,230)</u>

Net assets of governmental activities \$ (164,708)

City of Albion

Component Unit Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2004

	Special Revenue	Debt Service	
	DDA	DDA Bond	Total
REVENUES			
Taxes	\$ 134,393	\$ -	\$ 134,393
Intergovernmental			
Federal/State	55,500	-	55,500
Local	25,450	-	25,450
Other	20,040	-	20,040
TOTAL REVENUES	235,383	-0-	235,383
EXPENDITURES			
Current			
Community and economic development	251,333	-	251,333
Debt service			
Principal	-	50,000	50,000
Interest and fiscal fees	-	16,422	16,422
TOTAL EXPENDITURES	251,333	66,422	317,755
EXCESS OF REVENUES (UNDER) EXPENDITURES	(15,950)	(66,422)	(82,372)
OTHER FINANCING SOURCES (USES)			
Transfers in	-	67,860	67,860
Transfers out	(67,860)	-	(67,860)
TOTAL OTHER FINANCING SOURCES (USES)	(67,860)	67,860	-0-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	(83,810)	1,438	(82,372)
Fund balances, beginning of year	163,773	1,412	165,185
Prior period adjustments	(291)	-	(291)
Fund balances, end of year	\$ 79,672	\$ 2,850	\$ 82,522

City of Albion

Component Unit Funds

RECONCILIATION OF THE COMBINING STATEMENT OF REVENUES
EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL
FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended December 31, 2004

Net change in fund balances - governmental funds **\$ (82,372)**

Amounts reported for governmental activities in the statement of activities are different because:

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Decrease in accrued interest payable	1,438	
Bond and loan principal retirements	<u>50,000</u>	<u>51,438</u>

Change in net assets of governmental activities **\$ (30,934)**

City of Albion

Component Unit

BALANCE SHEET - TAX INCREMENT FINANCE AUTHORITY

December 31, 2004

ASSETS

Cash and cash equivalents	\$ 9,203
Accounts receivable	538
Taxes receivable	39,028
Due from other governmental units	1
Prepays	75

TOTAL ASSETS	<u>\$ 48,845</u>
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LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$ 586
Accrued liabilities	2,832
Accrued wages	2,102
Due to other governmental units	13,256

TOTAL LIABILITIES	18,776
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FUND BALANCE

Unreserved - undesignated	<u>30,069</u>
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TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 48,845</u>
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City of Albion

Component Unit Fund

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - TAX INCREMENT FINANCE AUTHORITY

December 31, 2004

Total fund balance - governmental fund \$ 30,069

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	205,000	
Accumulated depreciation is	<u>(18,000)</u>	
Capital assets, net		187,000

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

CDBG loan	<u>(85,636)</u>	
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Net assets of governmental activities \$ 131,433

City of Albion

Component Unit Fund

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2004

REVENUES	
Taxes	\$ 143,547
Interest and rents	<u>8,908</u>
TOTAL REVENUES	152,455
EXPENDITURES	
Current	
Community and economic development	176,043
Capital outlay	6,174
Debt service	
Principal	25,383
Interest	<u>3,709</u>
TOTAL EXPENDITURES	<u>211,309</u>
EXCESS OF REVENUES (UNDER) EXPENDITURES	(58,854)
Fund balance, beginning of year	91,280
Prior period adjustments	<u>(2,357)</u>
Fund balance, end of year	<u><u>\$ 30,069</u></u>

City of Albion

Component Unit Fund

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCE OF THE GOVERNMENTAL
FUND TO THE STATEMENT OF ACTIVITIES - TAX INCREMENT FINANCE AUTHORITY

Year Ended December 31, 2004

Net change in fund balance - governmental fund **\$ (58,854)**

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Depreciation expense	(1,800)
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Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:

Bond principal retirements	<u>25,383</u>
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Change in net assets of governmental activities	<u><u>\$ (35,271)</u></u>
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Principals

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

To the Honorable Mayor and
Members of City Council
City of Albion
Albion, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Albion as of and for the year ended December 31, 2004, which collectively comprise the City of Albion's basic financial statements and have issued our report thereon dated August 5, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Albion's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Albion's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. We noted the following reportable conditions:

2004-1 BANK RECONCILIATIONS

Condition: During the course of our audit, it was noted that bank reconciliations had not been prepared for the pooled cash account for the entire year under audit. In addition, it was noted that material differences had not been investigated and corrected in a timely manner. The bank reconciliations were completed in August 2005.

Criteria: Reconciliation of all bank accounts in a timely manner is one of the most important procedures for maintaining a sound internal control structure over all cash activities. The failure to reconcile cash also results in the inability to monitor cash flows to assure adequate funds are on hand to meet cash needs. Timely bank reconciliations are a critical accounting function.

Effect: As a result of not reconciling the City's bank account in a timely manner, reconciling items were not identified and resolved until August 2005.

2004-1 BANK RECONCILIATIONS - CONTINUED

Recommendation: We recommend the City assure all bank reconciliations be performed and approved by the appropriate individuals on a timely basis and any adjustments to the general ledger or at the bank be handled immediately. This process will not only assure accurate cash balances but will be useful for the City to monitor cash flow.

Corrective Action Response: Management of the City is currently reviewing procedures related to timely bank reconciliations and will implement necessary changes in order to comply with the cited requirements.

2004-2 SEGREGATION OF DUTIES

Condition: During our consideration and assessment of fraud risk, we noted that at the present time, the City does not have sufficient segregation of duties in various functions, especially in the areas of cash receipts and disbursements. During the course of our audit, the following specific conditions were noted:

- a. One individual is able to create new vendors and also process and mail accounts payable disbursements. In addition, bank reconciliations and canceled checks are not currently reviewed at an appropriate level of management.
- b. One individual is able to open the mail and also enter receipts into the general ledger. In addition, a log of mail receipts is not maintained and reviewed at an appropriate level of management.
- c. Property taxes are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- d. Utility receivable amounts are billed, collected, and reconciled by the same individual. This individual is also responsible for performing cashier functions, including the receipting of payments.
- e. Payroll reports and disbursements are not reviewed by someone independent of the payroll preparation process.

Criteria: Duties and responsibilities for handling receipts and disbursements should be arranged and separated so that an employee does not perform more than one of the following functions:

- a. Opening the mail.
- b. Receipting payments.
- c. Balancing receipts to the accounting records.
- d. Performing the bank reconciliation.

Effect: While this is a common occurrence in many organizations due to the limited number of employees, the City Council should realize that a greater risk in safeguarding assets exists if duties and responsibilities are not appropriately arranged and separated. In smaller entities, where the number of employees is limited and duties cannot be adequately separated, the City's management must provide a greater review and supervision of employee functions and procedures.

Recommendation: We recommend that the City's management review various areas of operation and consider additional segregation of duties to provide better internal controls. We also recommend that when the City Council is adopting new or modifying existing financial policies, they consider the potential impact that fraud or misappropriation may have on the City and assure that the policies address ways to prevent, deter, and detect fraud.

Corrective Action Response: Management of the City is currently reviewing procedures related to separation of duties in order to consider implementing changes that will comply with the cited requirements.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we consider items 2004-1 and 2004-2 to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Albion's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*, which are described below:

2004-3 NONCOMPLIANCE WITH PUBLIC ACT 621 OF 1978

Condition: During the year ended December 31, 2004, the City incurred expenditures in the General Fund and various Special Revenue Funds in excess of the amount appropriated.

Criteria: Public Act 621 of 1978 (the Uniform Budgeting and Accounting Act) provides that a local governmental unit adopt budgets for the General Fund and all Special Revenue Funds and amend budgets when necessary so as to not incur expenditures in excess of the amounts appropriated.

Effect: The City's current recordkeeping processes do not appear to be giving timely and accurate information necessary for the City Council and management to make appropriate decisions to assure compliance with the Uniform Budgeting and Accounting Act.

Recommendation: We recommend that the City Council and management monitor expenditures against the adopted budgets on a periodic basis, preferable monthly. Appropriate budget amendments should be made as necessary to assure compliance with Public Act 621 of 1978.

Corrective Action Response: Management of the City is currently reviewing procedures related to compliance with Public Act 621 of 1978 in order to implement necessary changes.

We also noted certain additional matters involving internal control over financial reporting and compliance and other matters that we reported to management of the City of Albion in a separate letter dated August 5, 2005.

This report is intended solely for the information and use of management and City Council of the City of Albion, Michigan, the Federal awarded agencies and pass-through entities and is not intended to be, and should not be, used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2005

Principals

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MANAGEMENT LETTER

To the Honorable Mayor
and Members of the City Council
City of Albion
Albion, Michigan

As you know, we have recently completed our audit of the records of the City of Albion for the year ended December 31, 2004. In connection with the audit, we feel that certain changes in your accounting procedures would be helpful in improving management's control and the operational efficiency of the accounting functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Payroll rates for overtime should be reviewed to assure accuracy.

During the testing of the payroll process, we noted three (3) instances where the automated payroll system contained incorrect pay rates for overtime of public safety employees.

We suggest that management review the data contained in the City's automated files on a regular basis to assure that the data is accurate.

2. Receipts should be prenumbered and deposits should be reconciled with the general ledger.

During the course of our audit, we noted that the City's receipts are not prenumbered.

We suggest the City utilize prenumbered receipts for all monies collected. These amounts that are entered into the automated general ledger accounting system should then be reconciled with bank validated deposit tickets. Tracing receipts from the general ledger to the bank statements will assure the accuracy of the City's financial records and also strengthen and improve internal control over the cash receipting process.

3. A reconciliation of agency liability accounts to supporting documentation should be performed.

During the course of our audit, we noted that several liability line items in the City's Trust and Agency Fund could not be substantiated with supporting documentation.

We suggest the City attempt to locate supporting documentation related to the Trust and Agency Fund liability accounts and make any necessary adjustments to the general ledger to assure that accurate balances are reflected in the City's records.

4. The City should escheat unclaimed property to the State of Michigan.

During our audit, it was noted that the City had outstanding checks listed on their Pooled Cash bank reconciliation that were up to five (5) years old. The Michigan Public Act 29 of 1995 provides that the City report and escheat unclaimed property to the State of Michigan in the year after they have been outstanding for more than one year.

We suggest the City attempt to contact the payees in an effort to clear old outstanding checks. In the event that the rightful property owners cannot be located, we suggest the City review their unclaimed property and escheat funds to the State of Michigan as necessary.

5. Various decentralized operational procedures should be analyzed and modified accordingly.

During our testing of decentralized receipts and disbursements we noted that Library receipts were not prenumbered. We also noted that the petty cash fund of the Library is replenished by issuing a check made payable to the administrative assistant of the Library.

We suggest the Library utilize prenumbered receipts for all monies collected. These receipts should then be reconciled with bank validated deposit tickets. Tracing amounts received from the library's receipt records to the bank records will assure the accuracy of the Library's financial information and also strengthen and improve internal control over the cash receipting process.

We also suggest that the petty cash fund of the Library be counted periodically by someone independent of the Library's receipts and disbursements processes in order to strengthen and improve internal control.

6. General ledger accounts receivable line item balances should be reconciled with subsidiary records.

During the course of our audit, we noted that the accounts receivable line item balances for five (5) funds did not agree with subsidiary reports that were generated by the automated accounting system. We also noted, however, that the balances reflected in the various accounts receivable line items were materially accurate for purposes of financial statement reporting.

We suggest that the City identify and investigate the differences noted between the subsidiary records and the general ledger receivable balances. The general ledger accounts receivable line item balances should be adjusted accordingly to reflect balances that are substantiated with supporting documentation.

7. Capital asset listings should be evaluated to assure all applicable capital assets are included and there is an adequate level of detail present.

During our analysis of capital assets, we noted that although the City has some historical cost information on a majority of their capital assets, the listing of capital assets may not be complete. Through the course of our audit fieldwork, management reviewed the listing of capital assets and made appropriate modifications to remove capital assets that were no longer in service and adjusted various descriptions of capital assets to accurately reflect the capital assets of the City of Albion.

We suggest the City perform a detailed analysis of the current capital asset listing on an annual basis to assure its accuracy and completeness.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements and this report does not affect our report on the financial statements dated August 5, 2005.

This report is intended solely for the use of management and the City Council of the City of Albion and should not be used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you, and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 5, 2005